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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

2011

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning 07-01-2011 and ending 06-30-2012

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)

Room/suite

1905 AMERICAN WAY

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

KINGSPORT, TN 37660

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 ☒ No

H(b) Are all affiliates included?

☐ Yes ☐ No

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

H(c) Group exemption number

I Tax-exempt status

☒ 501(c)(3) ☐ 501(c) ( ) ☐ (Insert no ) ☐ 4947(a)(1) or ☐ 527

J Website:

WWW.WELLMONT.ORG

K Form of organization

☒ Corporation ☐ Trust ☐ Association ☐ Other

L Year of formation

2000

M State of legal domicile

TN

Part I

Summary

Activities & Governance	<div>1</div> <div>Briefly describe the organization's mission or most significant activities</div> <div>WE DELIVER SUPERIOR HEALTH CARE WITH COMPASSION</div>		
	<div>2</div> <div>Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets</div>		
	<div>3</div> <div>Number of voting members of the governing body (Part VI, line 1a)</div>	<div>3</div>	3
	<div>4</div> <div>Number of independent voting members of the governing body (Part VI, line 1b)</div>	<div>4</div>	0
	<div>5</div> <div>Total number of individuals employed in calendar year 2011 (Part V, line 2a)</div>	<div>5</div>	289
	<div>6</div> <div>Total number of volunteers (estimate if necessary)</div>	<div>6</div>	
	<div>7a</div> <div>Total unrelated business revenue from Part VIII, column (C), line 12</div>	<div>7a</div>	0
Revenue	<div>b</div> <div>Net unrelated business taxable income from Form 990-T, line 34</div>	<div>7b</div>	
	<div>8</div> <div>Contributions and grants (Part VIII, line 1h)</div> <div>9</div> <div>Program service revenue (Part VIII, line 2g)</div> <div>10</div> <div>Investment income (Part VIII, column (A), lines 3, 4, and 7d)</div> <div>11</div> <div>Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)</div> <div>12</div> <div>Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)</div>	<div>Prior Year</div>	<div>Current Year</div>
		130,404	53,835
		22,422,386	41,547,274
		972	1,585
		159,859	2,498,612
		22,713,621	44,101,306
Expenses	<div>13</div> <div>Grants and similar amounts paid (Part IX, column (A), lines 1–3)</div>	26,055	1,431
	<div>14</div> <div>Benefits paid to or for members (Part IX, column (A), line 4)</div>		0
	<div>15</div> <div>Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)</div>	8,922,498	9,280,147
	<div>16a</div> <div>Professional fundraising fees (Part IX, column (A), line 11e)</div>		0
	<div>b</div> <div>Total fundraising expenses (Part IX, column (D), line 25)</div>		
	<div>17</div> <div>Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)</div>	13,260,802	27,377,961
	<div>18</div> <div>Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)</div>	22,209,355	36,659,539
Net Assets or Fund Balances	<div>19</div> <div>Revenue less expenses Subtract line 18 from line 12</div>	504,266	7,441,767
	<div>20</div> <div>Total assets (Part X, line 16)</div> <div>21</div> <div>Total liabilities (Part X, line 26)</div> <div>22</div> <div>Net assets or fund balances Subtract line 21 from line 20</div>	<div>Beginning of Current Year</div>	<div>End of Year</div>
		7,940,016	14,033,064
		1,366,754	5,333,623
		6,573,262	8,699,441

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 SR VP OF FINANCE

2013-04-30

Date

Paid Preparer's Use Only

Preparer's signature

Firm's name (or yours if self-employed), address, and ZIP + 4

Date

2013-04-30

Check if self-employed

☐

Preparer's taxpayer identification number (see instructions)

EIN

Phone no

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

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No 11282Y

Form 990 (2011)

Part III

Statement of Program Service Accomplishments

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

☐

☒

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 ☒ 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 ☒ No

If "Yes," describe these changes on Schedule O

4

Describe the organization's program service accomplishments for each of its three largest program services, as measured 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 \$ 32,323,137 including grants of \$ 1,431 ) (Revenue \$ 44,011,784 )

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 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 CONTRIBUTING TO THE OVERALL QUALITY OF LIFE IN THE AREAS WE SERVE. OVERALL, WE RETURNED MORE THAN 1,156,534 IN BENEFITS TO OUR COMMUNITY IN FISCAL YEAR 2012, INCLUDING 11,034,697 OF UNREIMBURSED COSTS FOR INDIGENT AND MEDICAID PATIENTS AND 121,837 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, INFUSION, SPINE REHABILITATION SERVICES AND DIAGNOSTIC IMAGING. IN FISCAL YEAR 2012, WE PROVIDED SERVICES TO 1,322 INPATIENTS, WE HAD 33,913 OUTPATIENT ENCOUNTERS, WE HAD 805 INPATIENT AND OUTPATIENT SURGICAL CASES, AND WE HAD 18,223 EMERGENCY ROOM VISITS. WE ARE MINDFUL OF OUR RESPONSIBILITIES AS ONE OF HAWKINS COUNTY'S LARGEST COMPANIES. HUNDREDS OF FAMILIES COUNT ON US FOR THEIR LIVELIHOODS. OUR AREA 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, 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 3,322,726 OF CHARGES AND INCURRING COSTS OF 670,480. THE WELLMONT CANCER CENTER RECENTLY OPENED AN ONCOLOGY OFFICE AND INFUSION CENTER IN HAWKINS COUNTY, OFFERING PATIENTS CONVENIENT ACCESS TO CANCER SERVICES IN A HEALING ENVIRONMENT. THE NEW FACILITY, LOCATED IN THE ALLANDALE OUTPATIENT CAMPUS, OFFERS SEVERAL PATIENT AMENITIES, FROM HEATED CHAIRS AND MASSAGES TO WINDOWS THROUGHOUT THE FACILITY THAT PROVIDE BEAUTIFUL VIEWS OF BAYS MOUNTAIN. 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. 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 8,446. 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 29,653.

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 \$ 32,323,137

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 	1	Yes
2	Is the organization required to complete Schedule B, Schedule of Contributors (see instructions)? 	2	Yes
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	3	No
4	<b>Section 501(c)(3) organizations.</b> 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	4	No
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	5	No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which 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 	6	No
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 	7	No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III 	8	No
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 	9	No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? If "Yes," complete Schedule D, Part V 	10	No
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. 	11a	Yes
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. 	11b	No
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. 	11c	No
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. 	11d	No
e	Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X. 	11e	Yes
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. 	11f	Yes
12a	Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII 	12a	No
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 	12b	Yes
13	Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E	13	No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a	No
b	Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? If "Yes," complete Schedule F, Part I	14b	No
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 U S? If "Yes," complete Schedule F, Part II and IV	15	No
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 U S? If "Yes," complete Schedule F, Part III and IV	16	No
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	17	No
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	18	No
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	19	No
20a	Did the organization operate one or more hospitals? If "Yes," complete Schedule H 	20a	Yes
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? <b>Note.</b> All Form 990 filers that operated one or more hospitals must attach audited financial statements 	20b	Yes

Part IV

Checklist of Required Schedules (continued)

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? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .	21		No
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? <i>If "Yes," complete Schedule I, Parts I and III</i> . . . . .	22		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> . . . . .	23	Yes	
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? <i>If "Yes," answer questions 24b–24d and complete Schedule K. If "No," go to line 25</i> . . . . .	24a		No
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	<b>Section 501(c)(3) and 501(c)(4) organizations.</b> Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25a		No
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? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25b		No
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? <i>If "Yes," complete Schedule L, Part II</i> . . . . .	26		No
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? <i>If "Yes," complete Schedule L, Part III</i> . . . . .	27		No
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? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28b		No
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 owner? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . . . .	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .	32		No
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? <i>If "Yes," complete Schedule R, Part I</i> . . . . .	33		No
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i> . . . . .	34	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	35a		No
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	35b		No
36	<b>Section 501(c)(3) organizations.</b> Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	36		No
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? <i>If "Yes," complete Schedule R, Part VI</i> . . . . .	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? <b>Note.</b> All Form 990 filers are required to complete Schedule O . . . . .	38	Yes	

<div>Part V</div> <div>Statements Regarding Other IRS Filings and Tax Compliance</div>			
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>			
		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable. .	1a32	
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b0	
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes
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. .	2a289	
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	Yes
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	No
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 or securities account)?	4a	No
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	No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b	No
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	No
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?	7a	No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c	No
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	No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f	No
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. All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state.	13a	
b	Enter the aggregate 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 aggregate amount of reserves on hand.	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a	No
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 lines 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 . . . . .		
1a	3		
b	Enter the number of voting members included in line 1a, above, who are independent . . . . .	1b	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? . . . . .	2	No
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? . . . . .	3	No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4	No
5	Did the organization become aware during the year of a significant diversion of the organization's assets? . . . . .	5	No
6	Did the organization have members or stockholders? . . . . .	6	Yes
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body? . . . . .	7a	Yes
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body? . . . . .	7b	Yes
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
a	The governing body? . . . . .	8a	Yes
b	Each committee with authority to act on behalf of the governing body? . . . . .	8b	Yes
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 . . . . .	9	Yes

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

		Yes	No
10a	Did the organization have local chapters, branches, or affiliates? . . . . .	10a	No
b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes? . . . . .	10b	
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes
b	Describe in Schedule O the process, if any, used by the organization to review the Form 990 . . . . .		
12a	Did the organization have a written conflict of interest policy? If "No," go to line 13 . . . . .	12a	Yes
b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts? . . . . .	12b	Yes
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done . . . . .	12c	Yes
13	Did the organization have a written whistleblower policy? . . . . .	13	Yes
14	Did the organization have a written document retention and destruction policy? . . . . .	14	Yes
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 . . . . .	15a	Yes
b	Other officers or key employees of the organization . . . . .	15b	Yes
	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? . . . . .	16a	No
b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements? . . . . .	16b	

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed <input checked="" type="checkbox"/> TN
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you made these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request
19	Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization <input checked="" type="checkbox"/> 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 Contractors

Check 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, and **current** key employees 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, or 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 or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(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) MARGARET DENARVAEZ PRESIDENT/WH	1 00	X		X				0	968,330	19,800
(2) ELIZABETH WARD THROUGH 110611 PRESIDENT/WH	1 00	X		X				0	927,837	8,596
(3) TRACEY P MOFFATT TREASURER/WH	1 00	X		X				0	432,938	6,532
(4) JOHN HOWARD SECR/WMA PRE	1 00	X		X				0	358,746	8,904
(5) GREG NEAL PRESIDENT/CE	8 00			X				54,402	217,608	24,105
(6) CHRISTOPHER B HOBSON CFO-WHCMH	16 00			X				39,290	58,936	16,122
(7) SHERRI IVES VP OF PATIEN	40 00					X		0	143,309	16,657
(8) GEORGIA SHUCK PHARMACIST	40 00					X		121,821	0	4,548
(9) ALEXANDER GEORGE PHARMACIST	40 00					X		119,713	0	4,196
(10) GARY COLLINS CRNA	40 00					X		106,810	0	3,202
(11) MARVIN POWERS CRNA	40 00					X		105,957	0	3,202
(12) FRED PELLE PRESIDENT/CE							X	0	197,675	14,710
(13) E DALE POE CFO-WHCMH							X	0	179,496	12,322

## Part VII

<b>1b</b>	<b>Sub-Total . . . . .</b>			
<b>c</b>	<b>Total from continuation sheets to Part VII, Section A . . . . .</b>			
<b>d</b>	<b>Total (add lines 1b and 1c) . . . . .</b>	547,993	3,484,875	142,896

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization ▶7

		Yes	No
<b>3</b>	Did the organization list any <b>former</b> officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i> . . . . .	<b>3</b> Yes	
<b>4</b>	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? <i>If "Yes," complete Schedule J for such individual</i> . . . . .	<b>4</b> Yes	
<b>5</b>	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i> . . . . .	<b>5</b>	No

## 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. Report compensation for the calendar year ending with or within the organization's tax year.

(A) Name and business address	(B) Description of services	(C) Compensation
UT SURGICAL ASSOCIATES 1437 WEST MORRIS BLVD MORRISTOWN, TN 37813	MEDICAL SERVCS	350,000

**2** Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of 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	38,335			
	e	Government grants (contributions)	1e	15,500			
	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 . . . . .		53,835			
Program Service Revenue	2a	PATIENT CARE REVENUE - NET	Business Code 621990	41,539,540	41,539,540		
	b	MEDICAL RECORDS FEES	621990	4,557	4,557		
	c	PHYSICAL THERAPY REVENUE	624100	3,177	3,177		
	d						
	e						
	f	All other program service revenue					
	g	Total. Add lines 2a-2f . . . . .		41,547,274			
	Other Revenue	3	Investment income (including dividends, interest and other similar amounts) . . . . .		85		85
4		Income from investment of tax-exempt bond proceeds . .					
5		Royalties . . . . .					
6a		Gross rents	(i) Real 44,720	(ii) Personal			
b		Less rental expenses	10,618				
c		Rental income or (loss)	34,102				
d		Net rental income or (loss) . . . . .		34,102		34,102	
7a		Gross amount from sales of assets other than inventory	(i) Securities	(ii) Other 3,748			
b		Less cost or other basis and sales expenses		2,248			
c		Gain or (loss)		1,500			
d		Net gain or (loss) . . . . .		1,500		1,500	
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	Business Code				
11a		MEANINGFUL USE FUNDS	900099	2,269,124	2,269,124		
b		MISCELLANEOUS REVENUE	900099	121,365	121,365		
c	CAFETERIA/VENDING REVENUE	722210	74,021	74,021			
d	All other revenue . . . . .						
e	Total. Add lines 11a-11d . . . . .		2,464,510				
12	Total revenue. See Instructions . . . . .		44,101,306	44,011,784		35,687	

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

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 United States See Part IV, line 21	1,431	1,431		
2	Grants and other assistance to individuals in the United States See Part IV, line 22				
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16				
4	Benefits paid to or for members				
5	Compensation of current officers, directors, trustees, and key employees	126,907		126,907	
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	7,266,670	6,944,395	322,275	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	211,870	211,870		
9	Other employee benefits	1,098,983	1,060,234	38,749	
10	Payroll taxes	575,717	558,886	16,831	
11	Fees for services (non-employees)				
a	Management	5,395	5,395		
b	Legal				
c	Accounting	16,958	16,958		
d	Lobbying				
e	Professional fundraising See Part IV, line 17				
f	Investment management fees				
g	Other	6,828,181	3,250,216	3,577,965	
12	Advertising and promotion	187		187	
13	Office expenses	1,681,186	1,585,351	95,835	
14	Information technology				
15	Royalties				
16	Occupancy	923,285	923,285		
17	Travel	32,410	28,377	4,033	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials				
19	Conferences, conventions, and meetings				
20	Interest	198,129	198,129		
21	Payments to affiliates				
22	Depreciation, depletion, and amortization	874,714	830,978	43,736	
23	Insurance	112,031	112,031		
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	MEDICAL SUPPLIES	11,805,975	11,805,975		
b	PROVISION FOR BAD DEBTS	4,647,355	4,647,355		
c	MISCELLANEOUS OTHER EXP	252,155	142,271	109,884	
d					
e					
f	All other expenses				
25	Total functional expenses. Add lines 1 through 24f	36,659,539	32,323,137	4,336,402	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)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing . . . . .			207,928	1	105,525
	2	Savings and temporary cash investments . . . . .				2	
	3	Pledges and grants receivable, net . . . . .				3	
	4	Accounts receivable, net . . . . .			2,420,327	4	5,429,280
	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)) and persons described in section 4958(c)(3)(B). Complete Part II of Schedule L . . . . .				6	
	7	Notes and loans receivable, net . . . . .				7	
	8	Inventories for sale or use . . . . .			356,567	8	1,019,226
	9	Prepaid expenses and deferred charges . . . . .			55,085	9	81,704
	10a	Land, buildings, and equipment, cost or other basis. Complete Part VI of Schedule D . . . . .	10a	16,883,104			
	b	Less: accumulated depreciation . . . . .	10b	9,485,775	4,900,109	10c	7,397,329
	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) . . . . .			7,940,016	16	14,033,064
Liabilities	17	Accounts payable and accrued expenses . . . . .			1,348,806	17	5,278,726
	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 (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D . . . . .			17,948	25	54,897
	26	Total liabilities. Add lines 17 through 25 . . . . .			1,366,754	26	5,333,623
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 . . . . .			6,573,262	27	8,699,441
	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 . . . . .			6,573,262	33	8,699,441
	34	Total liabilities and net assets/fund balances . . . . .			7,940,016	34	14,033,064

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	44,101,306
2	Total expenses (must equal Part IX, column (A), line 25)	2	36,659,539
3	Revenue less expenses Subtract line 2 from line 1	3	7,441,767
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	6,573,262
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-5,315,588
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	8,699,441

Part XII Financial Statements and Reporting

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

		Yes	No
1	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> 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?		No
b	Were the organization's financial statements audited by an independent accountant?	Yes	
c	If "Yes," to 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	Yes	
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 <input checked="" type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated 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?	Yes	
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	

SCHEDULE A  
(Form 990 or 990EZ)

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

2011

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 **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 Se**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 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?

h

☐

Provide the following information about the supported organization(s)

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

(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	
Total									

Part II

Support Schedule for Organizations Described in IRC 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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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 (Explain in Part IV ) Do not include gain or loss from the sale of capital assets						
11	<b>Total support</b> (Add lines 7 through 10)						
12	Gross receipts from related activities, etc (See instructions )					12	
13	<b>First Five Years</b> If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and <b>stop here</b>						

Section C. Computation of Public Support Percentage		
14	Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f))	14
15	Public Support Percentage for 2010 Schedule A, Part II, line 14	15
16a	<b>33 1/3% support test—2011.</b> If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and <b>stop here.</b> The organization qualifies as a publicly supported organization 	
b	<b>33 1/3% support test—2010.</b> If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and <b>stop here.</b> The organization qualifies as a publicly supported organization 	
17a	<b>10%-facts-and-circumstances test—2011.</b> 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 <b>stop here.</b> Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization 	
b	<b>10%-facts-and-circumstances test—2010.</b> 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 <b>stop here.</b> Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization 	
18	<b>Private Foundation</b> If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions 	

Part IIIPart III

Support Schedule for Organizations Described in IRC 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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(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 501(c)(3) organization, check this box and <b>stop here</b>						

Section C. Computation of Public Support Percentage		
15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2010 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2011 (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from 2010 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2011. 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 <b>stop here</b> . The organization qualifies as a publicly supported organization		
b 33 1/3% support tests—2010. 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 <b>stop here</b> . 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.** Supplemental Information. Complete this part to provide the explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

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, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b  
► Attach to Form 990. ► See separate instructions.

OMB No 1545-0047

2011

Open 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? <div><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</div>	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may 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 <div><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</div>	

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

1

Purpose(s) of conservation easements held by the organization (check all that apply)

☐ Preservation of land for public use (e g , recreation or pleasure)☐ Preservation of an historically importantly land area  
☐ Protection of natural habitat☐ Preservation of a certified historic structure  
☐ Preservation of open space

2

Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable 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?

☐ Yes ☒ 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 170(h)(4)(B)(ii)?

☐ Yes ☒ 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, 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, 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 relating to these items

a

Revenues included in Form 990, Part VIII, line 1

► \$ \_\_\_\_\_

b

Assets included in Form 990, Part X

► \$ \_\_\_\_\_

For Privacy Act and Paperwork Reduction Act Notice, see the Intructions for Form 990

Cat No 52283D

Schedule D (Form 990) 2011

Part III

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

3

Using the organization's 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

d

☐ Loan or exchange programs

b

☐ Scholarly research

e

☐ Other

c

☐ Preservation for future generations

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 the 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	Investment earnings or 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 . . . . .

3a(i)

Yes

No

3a(ii)

Yes

No

b

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

3b

Yes

No

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 property	(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 . . . . .		7,787,383	4,393,334	3,394,049
c Leasehold improvements . . . . .		2,413,278	108,228	2,305,050
d Equipment . . . . .		6,213,948	4,682,151	1,531,797
e Other . . . . .		437,995	302,062	135,933
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) . . . . . ▶				7,397,329



Part XI

Reconciliation of Change in Net Assets from Form 990 to 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 - 8	9	
10	Excess or (deficit) for the year per 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 should 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 should 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, 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.

Identifier	Return Reference	Explanation
LIABILITY UNDER FIN 48 FOOTNOTE	SCHEDULE D, PAGE 3, PART X	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 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

2011

Open to Public Inspection

**Name of the organization**  
WELLMONT HAWKINS COUNTY MEMORIAL  
HOSPITAL INC

**Employer identification number**  
  
62-1816368

Part I

Charity Care and Certain Other Community Benefits at Cost

		Yes	No	
1a	Did the organization have a charity care policy? If "No," skip to question 6a . . . . .	1a	Yes	
b	If "Yes," is it a written policy? . . . . .	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals  <input checked="" type="checkbox"/> Applied uniformly to all hospitals <input type="checkbox"/> Generally tailored to individual hospitals <input type="checkbox"/> Applied uniformly to most hospitals			
3	Answer the following based on the charity care eligibility criteria that applies 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 <i>free</i> care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care  <input type="checkbox"/> 100% <input type="checkbox"/> 150% <input checked="" type="checkbox"/> 200% <input type="checkbox"/> Other _____ %  b Did the organization use FPG to determine eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care . . . . .  <input type="checkbox"/> 200% <input type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input type="checkbox"/> Other _____ %  c If the organization did 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 policy provide free or discounted care to the "medically indigent"? . . . . .	3a	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? . . . . .	3b		No
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount? . . . . .	4	Yes	
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? . . . . .	5a	Yes	
6a	Did the organization prepare a community benefit report during the tax year? . . . . .	5b	Yes	
6b	If "Yes," did the organization make it available to the public? . . . . .	5c		No
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H	6a	Yes	
		6b	Yes	

7 Charity Care and Certain Other Community Benefits at Cost						
Charity Care 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 Charity care at cost (from Worksheet 1) . . . . .			670,480		670,480	2 090 %
b Medicaid (from Worksheet 3, column a) . . . . .			5,293,170	4,928,953	364,217	1 140 %
c Costs of other means-tested government programs (from Worksheet 3, column b) . . . . .						
d Total Charity Care and Means-Tested Government Programs . . . . .			5,963,650	4,928,953	1,034,697	3 230 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4) . . . . .	8	683	73,431		73,431	0 200 %
f Health professions education (from Worksheet 5) . . . . .			38,100		38,100	0 100 %
g Subsidized health services (from Worksheet 6) . . . . .						
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8) . . . . .	77		10,306		10,306	0 030 %
j Total Other Benefits . . . . .	85	683	121,837		121,837	0 330 %
k Total. Add lines 7d and 7j . . . . .	85	683	6,085,487	4,928,953	1,156,534	3 560 %

Part IICommunity Building Activities

Complete this table if the organization conducted any community building activities.

	(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
1Physical improvements and housing						
2Economic development						
3Community support						
4Environmental improvements						
5Leadership development and training for community members						
6Coalition building						
7Community health improvement advocacy						
8Workforce development	1	10	95		95	
9Other						
10Total	1	10	95		95	

Part IIIBad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?	1		No
2Enter the amount of the organization's bad debt expense	2	937,771	
3Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	3		
4Provide 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

5Enter total revenue received from Medicare (including DSH and IME)	5	8,078,279
6Enter Medicare allowable costs of care relating to payments on line 5	6	7,458,739
7Subtract line 6 from line 5. This is the surplus or (shortfall)	7	619,540
8Describe 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: <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other		

Section C. Collection Practices

9aDid the organization have a written debt collection policy during the tax year?	9a	Yes	
9bIf "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	Yes	

Part IVManagement Companies and Joint Ventures (see instructions)

(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				

## Section A. Hospital Facilities

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

## Name and address

[illegible]

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)

HAWKINS COUNTY MEMORIAL HOSPITAL

Name of Hospital Facility:

Line Number of Hospital Facility (from Schedule H, Part V, Section A):1

	Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)		
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 question 8 . . . . . If "Yes," indicate what the Needs Assessment describes (check all that apply) a <input type="checkbox"/> A definition of the community served by the hospital facility b <input type="checkbox"/> Demographics of the community c <input type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community d <input type="checkbox"/> How data was obtained e <input type="checkbox"/> The health needs of the community f <input type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups g <input type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet those needs h <input type="checkbox"/> The process for consulting with persons representing the community's interests i <input type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs j <input type="checkbox"/> Other (describe in Part VI)	1	
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? . . . . . If "Yes," indicate how the Needs Assessment was made widely available (check all that apply) a <input type="checkbox"/> Hospital facility's website b <input type="checkbox"/> Available upon request from the hospital facility c <input type="checkbox"/> Other (describe in Part VI)	5	
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply) a <input type="checkbox"/> Adoption of an implementation strategy to address the health needs of the hospital facility's community b <input type="checkbox"/> Execution of the implementation strategy c <input type="checkbox"/> Development of a community-wide community benefit plan for the facility d <input type="checkbox"/> Participation in community-wide community benefit plan e <input type="checkbox"/> Inclusion of a community benefit section in operational plans f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA g <input type="checkbox"/> Prioritization of health needs in the community h <input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community i <input type="checkbox"/> 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 together with 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 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for free care 200 0% If "No," explain in Part VI the criteria the hospital facility used	9	Yes

Part V

Facility Information (continued)

		Yes	No
10	Used FPG to determine eligibility for providing discounted care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for discounted care __% If "No," explain in Part VI the criteria the hospital facility used	10	No
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 <input checked="" type="checkbox"/> Income level b <input checked="" type="checkbox"/> Asset level c <input checked="" type="checkbox"/> Medical indigency d <input checked="" type="checkbox"/> Insurance status e <input checked="" type="checkbox"/> Uninsured discount f <input checked="" type="checkbox"/> Medicaid/Medicare g <input checked="" type="checkbox"/> State regulation h <input type="checkbox"/> Other (describe in Part VI)	11	Yes
12	Explained the method for applying for financial assistance? . . . . .	12	Yes
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 <input checked="" type="checkbox"/> The policy was posted at all times on the hospital facility's web site b <input type="checkbox"/> The policy was attached to all billing invoices c <input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms d <input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices e <input type="checkbox"/> The policy was provided, in writing, to patients upon admission to the hospital facility f <input checked="" type="checkbox"/> The policy was available upon request g <input type="checkbox"/> Other (describe in Part VI)	13	Yes

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 (FAP) that explained actions the hospital facility may take upon non-payment? . . . . .	14	Yes
15	Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP a <input checked="" type="checkbox"/> Reporting to credit agency b <input checked="" type="checkbox"/> Lawsuits c <input checked="" type="checkbox"/> Liens on residences d <input checked="" type="checkbox"/> Body attachments or arrests e <input checked="" type="checkbox"/> Other similar actions (describe in Part VI)		
16	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP? . . . . . If "Yes," check all actions in which the hospital facility or a third party engaged a <input checked="" type="checkbox"/> Reporting to credit agency b <input checked="" type="checkbox"/> Lawsuits c <input checked="" type="checkbox"/> Liens on residences d <input checked="" type="checkbox"/> Body attachments e <input checked="" type="checkbox"/> Other similar actions (describe in Part VI)	16	Yes
17	Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply) a <input checked="" type="checkbox"/> Notified patients of the financial assistance policy upon admission b <input checked="" type="checkbox"/> Notified patients of the financial assistance policy prior to discharge c <input type="checkbox"/> Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills d <input checked="" type="checkbox"/> Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy e <input type="checkbox"/> Other (describe in Part VI)		

Part V

Facility Information (continued)

Policy Relating to Emergency Medical Care

		Yes	No
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? . . . . . If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Individuals Eligible for Financial Assistance

19	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care		
a	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input type="checkbox"/> 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? . . . . . If "Yes," explain in Part VI	20	No
21	Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient? . . . . . If "Yes," explain in Part VI	21	No

Part V

Facility Information (continued)

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

(list in order of size from largest to smallest)

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

Name and address		Type of Facility (Describe)
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		

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, 6l, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health 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

Identifier	ReturnReference	Explanation
EXCLUSIONS FROM PERCENT OF TOTAL EXPENSE	PART I LINE 7 COLUMN F	BAD DEBT EXPENSE OF 4647355 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 COSTTOCHARGES WAS USED TO DETERMINE THE COSTS FOR AMOUNTS IN LINES 7A AND 7B COLUMN C THE COSTS INCLUDED IN THE COSTTOCHARGE 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

Identifier	ReturnReference	Explanation
COMMUNITY BUILDING ACTIVITIES	PART II	HEALTH OCCUPATIONS STUDENTS OF AMERICA HOSA WORKS WITH VARIOUS DEPARTMENTS AND LEADERS AT HAWKINS COUNTY MEMORIAL HOSPITAL REGARDING FUTURE CAREERS IN HEALTHCARE AND HOW TO INTERVIEW FOR MEDICAL JOBS STUDENTS ALSO SHADOW WITH OUR LOCAL HOSPITAL REPRESENTATIVES TO GAIN A BETTER UNDERSTANDING OF FUTURE HEALTHCARE OPPORTUNITIES

Identifier	ReturnReference	Explanation
BAD DEBT EXPENSE EXPLANATION	PART III LINE 4	THE COST REPORTED ON LINE 2 IS CALCULATED AS THE BAD DEBT EXPENSE FROM THE 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 THIRDPARTY PAYORS UNDER PROVISIONS OF REIMBURSEMENT FORMULAS IN EFFECT INCLUDING RETROACTIVE ADJUSTMENTS UNDER REIMBURSEMENT AGREEMENTS ESTIMATED RETROACTIVE ADJUSTMENTS ARE ACCRUED IN THE PERIOD RELATED SERVICES ARE RENDERED AND ADJUSTED IN FUTURE PERIODS AS FINAL AND OTHER SETTLEMENTS ARE DETERMINED WELLMONT PROVIDES CARE TO PATIENTS WHO MEET CRITERIA UNDER ITS CHARITY CARE POLICY WITHOUT CHARGE OR AT AMOUNTS LESS THAN ITS ESTABLISHED RATES BECAUSE WELLMONT DOES NOT PURSUE COLLECTION OF AMOUNTS DETERMINED TO QUALIFY AS CHARITY CARE THEY ARE NOT INCLUDED IN NET PATIENT SERVICE REVENUE PATIENT ACCOUNTS RECEIVABLE ARE REPORTED NET OF BOTH AN ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS AND AN ALLOWANCE FOR CONTRACTUAL ADJUSTMENTS THE CONTRACTUAL ALLOWANCE REPRESENTS THE DIFFERENCE BETWEEN ESTABLISHED BILLING RATES AND ESTIMATED REIMBURSEMENT FROM MEDICARE TENNCARE MEDICAID AND OTHER THIRDPARTY PAYMENT PROGRAMS WELLMONTS 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

Identifier	ReturnReference	Explanation
NEEDS ASSESSMENT	PART VI	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 COUNTYBYCOUNTY ANALYSIS TO IDENTIFY THE FOLLOWING CUSTOMER GROUPS PATIENTS AND POTENTIAL PATIENTS COMMUNITYEMPLOYER 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

Identifier	ReturnReference	Explanation
PATIENT EDUCATION OF ELIGIBILITY FOR ASSISTANCE	PART VI	LINE NUMBER 1 PART VI LINE 3 WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL INC PROACTIVELY INFORMS PATIENTS OF THE FINANCIAL ASSISTANCE POLICY BY POSTING THE POLICY ON ITS WEBSITE AS WELL AS POSTING THE POLICY AT POINTS OF REGISTRATION IN THE HOSPITAL 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

Identifier	ReturnReference	Explanation
COMMUNITY INFORMATION	PART VI	LINE NUMBER 1 PART VI LINE 4 WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL INCS 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 IS THE ONLY HOSPITAL IN HANCOCK COUNTY THE DEMOGRAPHICS OF THESE COUNTIES ARE AS FOLLOWS HAWKINS POPULATION 56671 MEDIAN HOUSEHOLD INCOME 36795 HANCOCK POPULATION 6737 MEDIAN HOUSEHOLD INCOME 22052 APPROXIMATELY 265 OF OUR PATIENTS ARE MEDICAID RECIPIENTS AND 115 ARE UNINSURED AND HAWKINS COUNTY IS DESIGNATED AS A MEDICALLY UNDERSERVED AREA

Identifier	ReturnReference	Explanation
HEALTH OF COMMUNITY IN RELATION TO EXEMPT PURPOSE	PART VI	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 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

Identifier	ReturnReference	Explanation
AFFILIATED HEALTH CARE INFORMATION	PART VI	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 NONPROFIT CORPORATION BASED IN KINGSFORT 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 KINGSFORT TENNESSEE 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 COMMUNITYBASED ACUTE CARE TO HIGHLY SPECIALIZED TERTIARY SERVICES INCLUDING TWO TRAUMA CENTERS COMPREHENSIVE HEART CARE AND CANCER CARE CENTERS 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 1253 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 VARIOUS NONPROFIT AND FORPROFIT CORPORATIONS AND OTHER ORGANIZATIONS THAT CURRENTLY PROVIDE HEALTH CARE AND HEALTH CARERELATED 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

Identifier	ReturnReference	Explanation
LIST OF STATES WHERE COMMUNITY BENEFIT REPORT IS FILED	PART VI	TENNESSEE VIRGINIA

Identifier	ReturnReference	Explanation
HAWKINS COUNTY MEMORIAL HOSPITAL LINE NUMBER 1 PART V LINE 15E	PART V LINE 15E	OTHER ACTIONS INCLUDE GARNISHMENT OF WAGES

Identifier	ReturnReference	Explanation
HAWKINS COUNTY MEMORIAL HOSPITAL LINE NUMBER 1 PART V LINE 16E	PART V LINE 16E	OTHER ACTIONS INCLUDE GARNISHMENT OF WAGES

Identifier	ReturnReference	Explanation
HAWKINS COUNTY MEMORIAL HOSPITAL LINE NUMBER 1 PART V LINE 19D	PART V LINE 19D	WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL INC FOLLOWS TENNESSEE STATUTE WHICH IS 175 OF AVERAGE COST FOR ITS HOSPITALS

Schedule J  
(Form 990)

Compensation Information

OMB No 1545-0047

2011

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization

WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL INC

Employer identification number

62-1816368

Part I

Questions Regarding Compensation

		Yes	No
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		
	<div><div><input checked="" type="checkbox"/> First-class or charter travel</div><div><input checked="" type="checkbox"/> Housing allowance or residence for personal use</div></div>		
	<div><div><input checked="" type="checkbox"/> Travel for companions</div><div><input type="checkbox"/> Payments for business use of personal residence</div></div>		
	<div><div><input type="checkbox"/> Tax idemnification and gross-up payments</div><div><input checked="" type="checkbox"/> Health or social club dues or initiation fees</div></div>		
	<div><div><input type="checkbox"/> Discretionary spending account</div><div><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div></div>		
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain	1b	Yes
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?	2	Yes
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		
	<div><div><input type="checkbox"/> Compensation committee</div><div><input type="checkbox"/> Written employment contract</div></div>		
	<div><div><input type="checkbox"/> Independent compensation consultant</div><div><input type="checkbox"/> Compensation survey or study</div></div>		
	<div><div><input type="checkbox"/> Form 990 of other organizations</div><div><input type="checkbox"/> Approval by the board or compensation committee</div></div>		
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?	4a	Yes
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	4b	Yes
c	Participate in, or receive payment from, an equity-based compensation arrangement?	4c	No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III		
	Only 501(c)(3) and 501(c)(4) organizations only 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?	5a	No
b	Any related organization?	5b	No
	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?	6a	No
b	Any related organization?	6b	Yes
	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	7	No
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 Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III	8	No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	9	

**Part II** **Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use Schedule J-1 if additional space 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) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual

(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) MARGARET DENARVAEZ	(i) (ii)	721,998	231,000	15,332	14,126	5,674	988,130	
(2) ELIZABETH WARD THROUGH 110611	(i) (ii)	384,808	107,663	435,366		8,596	936,433	
(3) TRACEY P MOFFATT	(i) (ii)	304,541	55,945	72,452		6,532	439,470	
(4) JOHN HOWARD	(i) (ii)	268,284	38,672	51,790		8,904	367,650	
(5) GREG NEAL	(i) (ii)	47,005 188,020	7,203 28,812	194 776	2,856 11,425	1,965 7,859	59,223 236,892	
(6) SHERRI IVES	(i) (ii)	125,483	17,685	141	6,833	9,824	159,966	
(7) FRED PELLE	(i) (ii)	197,258		417	9,354	5,356	212,385	
(8) E DALE POE	(i) (ii)	157,229	22,073	194		12,322	191,818	

**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.

Identifier	Return Reference	Explanation
FRINGE OR EXPENSE EXPLANATION	SCHEDULE J, PAGE 1, PART I, LINE 1A	CHARTER TRAVEL AND TRAVEL FOR COMPANIONS. WELLMONT HEALTH SYSTEM PROVIDED AIRPLANE TRAVEL FOR ITS EXECUTIVES THROUGH A PARTIAL OWNERSHIP OF AN AIRPLANE. ON OCCASION, TRAVEL WAS PROVIDED FOR EXECUTIVES AND THEIR COMPANIONS FOR PERSONAL USE. WELLMONT HEALTH SYSTEM FOLLOWED IRS GUIDELINES AND INCLUDED THE APPROPRIATE AMOUNTS IN THEIR TAXABLE COMPENSATION. HOUSING ALLOWANCE: WELLMONT HEALTH SYSTEM OFFERED A HOUSING ALLOWANCE FOR JOHN HOWARD, SR, VP OF LEGAL AFFAIRS, DURING THE FISCAL YEAR ENDED JUNE 30, 2012. THE HOUSING ALLOWANCE PAID TO THE EXECUTIVE WAS INCLUDED IN HIS TAXABLE COMPENSATION. HEALTH OR SOCIAL CLUB DUES: DURING THE FISCAL YEAR ENDED JUNE 30, 2012, WELLMONT HEALTH SYSTEM PROVIDED COUNTRY CLUB MEMBERSHIPS TO MARGARET DENARVAEZ, TRACEY P. MOFFATT, AND JOHN HOWARD. THESE AMOUNTS ARE INCLUDED IN THEIR TAXABLE COMPENSATION.
SEVERANCE, NONQUALIFIED, AND EQUITY-BASED PAYMENTS	SCHEDULE J, PAGE 1, PART I, LINE 4	ELIZABETH WARD (THROUGH 11/06/11) 435,000 0 0
COMPENSATION CONTINGENT UPON NET EARNINGS OF RELATED ORG.	SCHEDULE J, PAGE 1, PART I, LINE 6B	INCENTIVE COMPENSATION IS BASED ON MEETING BUDGETED OPERATING MARGIN GOALS.
OTHER ADDITIONAL INFORMATION	SCHEDULE J, PART III	PART I, LINE 4B: WELLMONT HEALTH SYSTEM HAS AN EXECUTIVE RETIREMENT PROGRAM THAT INCLUDED MARGARET DENARVAEZ, ELIZABETH WARD, AND JOHN HOWARD FOR THE FISCAL YEAR ENDING JUNE 30, 2012. THIS PROGRAM HAS A TARGET BENEFIT OF 60% OF THE HIGHEST THREE-YEAR AVERAGE SALARY (LESS EMPLOYER-PROVIDER BENEFITS) AND THE EXECUTIVE MUST HAVE TWENTY YEARS OF SERVICE TO RECEIVE THE FULL BENEFIT. THE EXECUTIVE MAY RETIRE EARLY AT AGE 60 AND RECEIVE REDUCED BENEFITS. THERE WERE NO PAYMENTS MADE UNDER THIS PROGRAM FOR THE FISCAL YEAR ENDING JUNE 30, 2012.

2011

Open to Public Inspection

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 to provide any additional information.  
▶ Attach to Form 990 or 990-EZ.

Name of the organization  
WELLMONT HAWKINS COUNTY MEMORIAL  
HOSPITAL INC

Employer identification number

62-1816368

Identifier	Return Reference	Explanation
FIRST ACCOMPLISHMENT DESCRIPTION	FORM 990, PAGE 2, PART III, LINE 4A	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 CONTRIBUTING TO THE OVERALL QUALITY OF LIFE IN THE AREAS WE SERVE OVERALL, WE RETURNED MORE THAN 1,156,534 IN BENEFITS TO OUR COMMUNITY IN FISCAL YEAR 2012, INCLUDING 11,034,697 OF UNREIMBURSED COSTS FOR INDIGENT AND MEDICAID PATIENTS AND 121,837 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, INFUSION, SPINE REHABILITATION SERVICES AND DIAGNOSTIC IMAGING IN FISCAL YEAR 2012, WE PROVIDED SERVICES TO 1,322 INPATIENTS, WE HAD 33,913 OUTPATIENT ENCOUNTERS, WE HAD 805 INPATIENT AND OUTPATIENT SURGICAL CASES, AND WE HAD 18,223 EMERGENCY ROOM VISITS WE ARE MINDFUL OF OUR RESPONSIBILITIES AS ONE OF HAWKINS COUNTY'S LARGEST COMPANIES HUNDREDS OF FAMILIES COUNT ON US FOR THEIR LIVELIHOODS OUR AREA 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, 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 3,322,726 OF CHARGES AND INCURRING COSTS OF 670,480 THE WELLMONT CANCER CENTER RECENTLY OPENED AN ONCOLOGY OFFICE AND INFUSION CENTER IN HAWKINS COUNTY, OFFERING PATIENTS CONVENIENT ACCESS TO CANCER SERVICES IN A HEALING ENVIRONMENT THE NEW FACILITY, LOCATED IN THE ALLANDALE OUTPATIENT CAMPUS, OFFERS SEVERAL PATIENT AMENITIES, FROM HEATED CHAIRS AND MESSAGES TO WINDOWS THROUGHOUT THE FACILITY THAT PROVIDE BEAUTIFUL VIEWS OF BAY'S MOUNTAIN 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 KWANIS 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 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 8,446 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 29,653

Identifier	Return Reference	Explanation
CLASSES OF MEMBERS OR STOCKHOLDERS	FORM 990, PAGE 6, PART VI, LINE 6	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

Identifier	Return Reference	Explanation
ELECTION OF MEMBERS AND THEIR RIGHTS	FORM 990, PAGE 6, PART VI, LINE 7A	SEE FORM 990, PART VI, SECTION A, LINE 6 FOR EXPLANATION

Identifier	Return Reference	Explanation
DECISIONS SUBJECT TO APPROVAL OF MEMBERS	FORM 990, PAGE 6, PART VI, LINE 7B	SEE FORM 990, PART VI, SECTION A, LINE 6 FOR EXPLANATION

Identifier	Return Reference	Explanation
OFFICERS WHO CANNOT BE REACHED	FORM 990, PAGE 6, PART VI, LINE 9	ELIZABETH WARD (THROUGH 11/06/11)

Identifier	Return Reference	Explanation
ORGANIZATION'S PROCESS USED TO REVIEW FORM 990	FORM 990, PAGE 6, PART VI, LINE 11B	WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC 'S FORM 990 IS REVIEWED BY THE SENIOR VICE PRESIDENT OF FINANCE, THE CORPORATE CONTROLLER, AND THE MANAGER OF ACCOUNTING FOR WELLMONT HEALTH SY STEM, AND THE BOARD OF DIRECTORS OF WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC PRIOR TO FILING ANY QUESTIONS OR COMMENTS ARISING FROM THE INITIAL REVIEW ARE ADDRESSED TO ENSURE THE RETURN IS COMPLETE AND ACCURATE ANY CHANGES OR CORRECTIONS ARE IDENTIFIED, REVISED IN THE RETURN, AND REVIEWED BY THE INDIVIDUALS LISTED ABOVE PRIOR TO FILING WITH THE INTERNAL REVENUE SERVICE

Identifier	Return Reference	Explanation
ENFORCEMENT OF CONFLICTS POLICY	FORM 990, PAGE 6, PART VI, LINE 12C	OFFICERS, DIRECTORS AND KEY EMPLOYEES ARE REQUIRED TO SIGN A CONFLICT OF INTEREST POLICY ACKNOWLEDGEMENT ANY POTENTIAL CONFLICTS ARE DISCUSSED WITH THE COMPLIANCE AND AUDIT SERVICES DEPARTMENT 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 COMPLIANCE AND AUDIT SERVICES DEPARTMENT, FOR RESOLUTION. WELLMONT HEALTH SYSTEM ALSO USES A HOTLINE THAT ALLOWS ANONYMOUS REPORTING OF POSSIBLE CONFLICT OF INTEREST SITUATIONS FOR INVESTIGATION BY THE COMPLIANCE AND AUDIT SERVICES DEPARTMENT.

Identifier	Return Reference	Explanation
COMPENSATION PROCESS FOR TOP OFFICIAL	FORM 990, PAGE 6, PART VI, LINE 15A	<p>THE COMPENSATION OF MARGARET DENARVAEZ, THE PRESIDENT AND CEO OF WELLMONT HEALTH SYSTEM, IS REVIEWED, APPROVED AND DOCUMENTED BY THE WELLMONT HEALTH SYSTEM HUMAN RESOURCES COMMITTEE AND THE BOARD OF DIRECTORS. MARGARET DENARVAEZ IS ALSO ON THE PRESIDENT OF THE BOARD OF DIRECTORS (08/01/11 TO PRESENT) OF WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC. THE COMPENSATION OF ELIZABETH WARD, THE FORMER EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER (THROUGH 11/06/11) OF WELLMONT HEALTH SYSTEM, WAS REVIEWED, APPROVED AND DOCUMENTED BY THE WELLMONT HEALTH SYSTEM HUMAN RESOURCES COMMITTEE AND BOARD OF DIRECTORS. ELIZABETH WARD WAS ALSO THE FORMER PRESIDENT OF THE BOARD OF DIRECTORS OF WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC. GREG NEAL IS THE PRESIDENT AND CEO OF WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC. GREG NEAL'S COMPENSATION IS PAID BY WELLMONT HEALTH SYSTEM THROUGH INTERCOMPANY TRANSACTIONS. WELLMONT HEALTH SYSTEM USES ONE OR MORE OF THE METHODS DESCRIBED TO ESTABLISH THE COMPENSATION OF GREG NEAL. FRED PELLE WAS THE FORMER PRESIDENT AND CEO OF WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC. FRED PELLE'S COMPENSATION WAS PAID BY WELLMONT HEALTH SYSTEM THROUGH INTERCOMPANY TRANSACTIONS. WELLMONT HEALTH SYSTEM USES ONE OR MORE OF THE METHODS DESCRIBED TO ESTABLISH THE COMPENSATION OF FRED PELLE. 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 MARGARET DENARVAEZ AND ELIZABETH WARD WAS COMPLETED MARCH 15, 2011.</p>

Identifier	Return Reference	Explanation
COMPENSATION PROCESS FOR OFFICERS	FORM 990, PAGE 6, PART VI, LINE 15B	<p>THE COMPENSATION OF TRACEY P MOFFATT, THE CHIEF OPERATIONS OFFICER OF WELLMONT HEALTH SYSTEM, IS REVIEWED, APPROVED AND DOCUMENTED BY THE WELLMONT HEALTH SYSTEM HUMAN RESOURCES COMMITTEE OF THE BOARD OF DIRECTORS. TRACEY P. MOFFATT IS ALSO THE TREASURER OF WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC. THE COMPENSATION OF JOHN HOWARD, THE PRESIDENT AND CEO OF WELLMONT MEDICAL ASSOCIATES, INC. AND GENERAL COUNSEL FOR WELLMONT HEALTH SYSTEM IS REVIEWED, APPROVED AND DOCUMENTED BY THE WELLMONT HEALTH SYSTEM HUMAN RESOURCES COMMITTEE OF THE BOARD OF DIRECTORS. JOHN HOWARD IS ALSO THE SECRETARY OF WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC. CHRISTOPHER B. HOBSON IS THE CFO OF WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC. (07/01/11 TO PRESENT).</p> <p>WELLMONT HEALTH SYSTEM USES ONE OR MORE OF THE METHODS DESCRIBED TO ESTABLISH THE COMPENSATION OF CHRISTOPHER B. HOBSON. 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 TRACEY P. MOFFATT AND JOHN HOWARD ON NOVEMBER 17, 2011.</p>

Identifier	Return Reference	Explanation
GOVERNING DOCUMENTS DISCLOSURE EXPLANATION	FORM 990, PAGE 6, PART VI, LINE 19	WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC 'S GOVERNING DOCUMENTS AND CONFLICT OF INTEREST POLICY 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

Identifier	Return Reference	Explanation
OTHER CHANGES IN NET ASSETS EXPLANATION	FORM 990, PART XI, LINE 5	376,107 CAPITAL CONTRIBUTION 4,939,481 INTERCOMPANY CHARGE FROM AFFILIATE ----- 5,315,588 TOTAL OTHER CHANGES IN NET ASSETS =====

Identifier	Return Reference	Explanation
CHANGE IN FINANCIAL REVIEW PROCESS	FORM 990, PAGE 12, PART XII, LINE 2C	WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC 'S FINANCIAL STATEMENTS ARE INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS OF WELLMONT HEALTH SY STEM WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL, INC 'S FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012 WERE AUDITED AS PART OF WELLMONT HEALTH SY STEM'S CONSOLIDATED FINANCIAL STATEMENTS WELLMONT HEALTH SY STEM HAS AN 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

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

2011

Open to Public Inspection

Name 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" on 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

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on 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 organization	
						Yes	No
See Additional Data Table							

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on 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) Disproporionate allocations?		(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	
(1) HOLSTON VALLEY IMAGING CENTER  103 WEST STONE DRIVE KINGSPORT, TN 37660 20-2043285	HEALTHCARE	TN	N/A					No			No	
(2) SAPLING GROVE AMBULATORY SURGERY  220 MEDICAL PARK BOULEVARD BRISTOL, TN 37620 20-4450153	HEALTHCARE	TN	N/A					No			No	
(3) HOLSTON VALLEY AMBULATORY SURGERY  103 WEST STONE DRIVE KINGSPORT, TN 37660 62-1816864	HEALTHCARE	TN	N/A					No			No	
(4) HOLSTON VALLEY IMAGING CENTER  103 WEST STONE DRIVE KINGSPORT, TN 37660 20-2043285	HEALTHCARE	TN	N/A					No			No	
(5) SAPLING GROVE AMBULATORY SURGERY  220 MEDICAL PARK BOULEVARD BRISTOL, TN 37620 20-4450153	HEALTHCARE	TN	N/A					No			No	
(6) HOLSTON VALLEY AMBULATORY SURGERY  103 WEST STONE DRIVE KINGSPORT, TN 37660 62-1816864	HEALTHCARE	TN	N/A					No			No	

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on 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
See Additional Data Table							

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" on 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

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 (iv) rent from a controlled entity

b

Gift, grant, or capital contribution to related organization(s)

c

Gift, grant, or capital contribution from related organization(s)

d

Loans or loan guarantees to or for related organization(s)

e

Loans or loan guarantees by related organization(s)

f

Sale of assets to related organization(s)

g

Purchase of assets from related organization(s)

h

Exchange of assets with related organization(s)

i

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

j

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

k

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

l

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

m

Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

n

Sharing of paid employees with related organization(s)

o

Reimbursement paid to related organization(s) for expenses

p

Reimbursement paid by related organization(s) for expenses

q

Other transfer of cash or property to related organization(s)

r

Other transfer of cash or property from related organization(s)

Yes

No

1a

1b

1c

1d

1e

1f

1g

1h

1i

1j

1k

1l

1m

1n

1o

1p

1q

1r

No

No

Yes

No

No

No

No

No

No

Yes

Yes

Yes

No

Yes

No

No

No

No

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	53,835	NEED
(2)WELLMONT HEALTH SYSTEM	C	376,107	CAPITAL CONTRIBUTION
(3)WELLMONT HEALTH SYSTEM	J	196,914	RENTAL AGREEMENT
(4)MCOT INC	L	91,871	PERCENTAGE OF AMT COLLECT
(5)WELLMONT LAUNDRY OF TRI-CITIES INC	L	81,017	INVOICES
(6)WELLMONT HEALTH SYSTEM	L	3,605,705	INVOICES

Schedule R (Form 990) 2011

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.

[illegible]

Part VII

Supplemental Information

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

Identifier	Return Reference	Explanation	
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Software ID:  
Software Version:  
EIN: 62-1816368  
Name: WELLMONT HAWKINS COUNTY MEMORIAL  
HOSPITAL INC

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(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 501(c) (3))	(f) Direct Controlling Entity	(g) Section 512 (b)(13) controlled organization	
WELLMONT HEALTH SYSTEM  1905 AMERICAN WAY KINGSPORT, TN 37660 62-1636465	HEALTHCARE	TN	501C3	3	NA		No
WELLMONT MADISON HOUSE  1905 AMERICAN WAY KINGSPORT, TN 37660 62-1308216	HEALTHCARE	TN	501C3	9	WHS		No
WELLMONT FOUNDATION INC  1905 AMERICAN WAY KINGSPORT, TN 37660 58-1594191	HEALTHCARE	TN	501C3	7	WHS		No
WELLMONT CARDIOLOGY SERVICES  1905 AMERICAN WAY KINGSPORT, TN 37660 26-3557623	HEALTHCARE	TN	501C3	3	WHS		No
WELLMONT IMAGING SERVICES INC  1905 AMERICAN WAY KINGSPORT, TN 37660 86-1103148	HEALTHCARE	TN	501C3	11A	WHS		No
WELLMONT MEDICAL ASSOCIATES INC  1905 AMERICAN WAY KINGSPORT, TN 37660 27-0898372	HEALTHCARE	TN	501C3	7	WHS		No
WELLMONT SLEEP SERVICES  1905 AMERICAN WAY KINGSPORT, TN 37660 27-3777167	HEALTHCARE	TN	501C3	3	WHS		No
TAKOMA REGIONAL HOSPITAL INC  401 TAKOMA AVENUE GREENVILLE, TN 37734 51-0603966	HEALTHCARE	TN	501C3	3	WHS		No

Form 990, Schedule R, Part IV - Identification of Related Organizations Taxable as a Corporation or Trust

(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
WELLMONT INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1320035	PHYS SVCS	TN	N/A				
MEDICAL MALL PHARMACY INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1565006	MED SVCS	TN	N/A				
WELLMONT PHYSICIAN SERVICES INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1567353	PHYS SVCS	TN	N/A				
WELLMONT HEALTH SERVICES INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1254373	HEALTHCARE	TN	N/A				
WPS PROVIDERS INC 1905 AMERICAN WAY KINGSPORT, TN 37660 20-5564642	PHYS SVCS	TN	N/A				
MCOT INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1325938	MED SVCS	TN	N/A				
MEDICAL LAUNDRY OF TRI- CITIES INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1482226	MED SVCS	TN	N/A				
WELLMONT INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1320035	PHYS SVCS	TN	N/A				
MEDICAL MALL PHARMACY INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1565006	MED SVCS	TN	N/A				
WELLMONT PHYSICIAN SERVICES INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1567353	PHYS SVCS	TN	N/A				
WELLMONT HEALTH SERVICES INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1254373	HEALTHCARE	TN	N/A				
WPS PROVIDERS INC 1905 AMERICAN WAY KINGSPORT, TN 37660 20-5564642	PHYS SVCS	TN	N/A				
MCOT INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1325938	MED SVCS	TN	N/A				
MEDICAL LAUNDRY OF TRI- CITIES INC 1905 AMERICAN WAY KINGSPORT, TN 37660 62-1482226	MED SVCS	TN	N/A				

Form 990, Schedule R, Part V - Transactions With Related Organizations

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved (\$)	(d) Method of determining amount involved
(1) WELLMONT FOUNDATION INC	C	53,835	NEED
(2) WELLMONT HEALTH SYSTEM	C	376,107	CAPITAL CONTRIBUTION
(3) WELLMONT HEALTH SYSTEM	J	196,914	RENTAL AGREEMENT
(4) MCOT INC	L	91,871	PERCENTAGE OF AMT COLLECT
(5) WELLMONT LAUNDRY OF TRI-CITIES INC	L	81,017	INVOICES
(6) WELLMONT HEALTH SYSTEM	L	3,605,705	INVOICES

Form **4562**

Depreciation and Amortization  
(Including Information on Listed Property)

OMB No 1545-0172

**2011**

Attachment  
Sequence No **179**

Department of the Treasury  
Internal Revenue Service (99)

▶ See separate instructions.

▶ Attach to your tax return.

Name(s) shown on return WELLMONT HAWKINS COUNTY MEMORIAL HOSPITAL INC	Business or activity to which this form relates  GENERAL DEPRECIATION & AMORTIZ	Identifying number  62-1816368
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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	500,000

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 2010 Form 4562	10		
11 Business income limitation Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	500,000	
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 2012 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	874,752

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 2011	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		

Section B—Assets Placed in Service During 2011 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	
			27 5 yrs	MM	S/L	
i Nonresidential real property			39 yrs	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2011 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	874,752
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	

Part V

Listed Property (Include automobiles, certain other vehicles, certain computers, and property used for entertainment, recreation, or amusement.)  
**Note:** For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete **only** 24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.

Section A—Depreciation and Other Information (Caution: See the instructions for limits for passenger automobiles.)

24a Do you have evidence to support the business/investment use claimed? <input type="checkbox"/> Yes <input type="checkbox"/> No						24b If "Yes," is the evidence written? <input type="checkbox"/> Yes <input type="checkbox"/> No			
(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/ investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation/ deduction	(i) Elected section 179 cost	
25Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions)							25		
26 Property used more than 50% in a qualified business use									
		%							
		%							
		%							
27 Property used 50% or less in a qualified business use									
		%				S/L -			
		%				S/L -			
		%				S/L -			
28 Add amounts in column (h), lines 25 through 27 Enter here and on line 21, page 1						28			
29 Add amounts in column (i), line 26 Enter here and on line 7, page 1							29		

Section B—Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other "more than 5% owner," or related person  
If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles

30 Total business/investment miles driven during the year ( <b>do not</b> include commuting miles)	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
31 Total commuting miles driven during the year												
32 Total other personal(noncommuting) miles driven												
33 Total miles driven during the year Add lines 30 through 32												
34 Was the vehicle available for personal use during off-duty hours?	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
35 Was the vehicle used primarily by a more than 5% owner or related person?												
36 Is another vehicle available for personal use?												

Section C—Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who **are not** more than 5% owners or related persons (see instructions)

37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?	Yes	No
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See the instructions for vehicles used by corporate officers, directors, or 1% or more owners		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (See instructions )		
<b>Note:</b> If your answer to 37, 38, 39, 40, or 41 is "Yes," do not complete Section B for the covered vehicles		

Part VI Amortization

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2011 tax year (see instructions)					
43 Amortization of costs that began before your 2011 tax year				43	
44 <b>Total.</b> Add amounts in column (f) See the instructions for where to report				44	



**WELLMONT HEALTH SYSTEM AND AFFILIATES**

Consolidated Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

# WELLMONT HEALTH SYSTEM AND AFFILIATES

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

## Independent Auditors' Report

The Board of Directors  
Wellmont Health System

We have audited the accompanying consolidated balance sheets of Wellmont Health System and affiliates (Wellmont) as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Wellmont's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wellmont Health System and affiliates as of June 30, 2012 and 2011, and the consolidated results of their operations and changes in their net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, Wellmont changed its presentation of provision for bad debts as a result of the adoption of Accounting Standards Update No. 2011-07, *Health Care Entities: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*.

**KPMG LLP**

October 24, 2012

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Consolidated Balance Sheets

June 30, 2012 and 2011

(Dollars in thousands)

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Current assets		
Cash and cash equivalents	\$ 44,930	36,558
Assets limited as to use, required for current liabilities	4,372	1,902
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$25,656 and \$24,246 in 2012 and 2011, respectively	108,265	101,565
Other receivables	23,805	9,904
Inventories	17,862	17,830
Prepaid expenses and other current assets	7,462	7,163
Total current assets	206,696	174,922
Assets limited as to use, net of current portion	339,030	319,387
Land, buildings, and equipment, net	458,048	454,937
Other assets		
Long-term investments	36,633	36,437
Investments in affiliates	32,646	31,177
Deferred debt expense, net	5,419	5,847
Goodwill	17,090	16,721
Other	651	1,875
	92,439	92,057
Total assets	\$ 1,096,213	1,041,303
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current portion of long-term debt	\$ 11,913	9,273
Accounts payable and accrued expenses	81,243	70,943
Estimated third-party payor settlements	15,535	9,533
Current portion of other long-term liabilities	5,782	8,527
Total current liabilities	114,473	98,276
Long-term debt, less current portion	459,654	458,882
Other long-term liabilities, less current portion	54,060	42,384
Total liabilities	628,187	599,542
Net assets		
Unrestricted	458,218	434,661
Temporarily restricted	5,739	3,570
Permanently restricted	1,304	1,174
Total net assets attributable to Wellmont	465,261	439,405
Noncontrolling interests	2,765	2,356
Total net assets	468,026	441,761
Commitments and contingencies		
Total liabilities and net assets	\$ 1,096,213	1,041,303

See accompanying notes to consolidated financial statements

**WELLMONT HEALTH SYSTEM AND AFFILIATES**  
Consolidated Statements of Operations and Changes in Net Assets  
Years ended June 30, 2012 and 2011  
(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
Revenue		
Patient service revenue	\$ 813,229	767,450
Provision for bad debt	(71,407)	(37,858)
Net patient revenue less provision for bad debt	741,822	729,592
Other revenues	47,904	29,799
Total revenue	<u>789,726</u>	<u>759,391</u>
Expenses		
Salaries and benefits	368,772	347,185
Medical supplies and drugs	164,397	160,565
Purchased services	79,509	80,348
Interest	21,677	20,750
Depreciation and amortization	46,403	46,059
Other	86,645	87,319
Total expenses	<u>767,403</u>	<u>742,226</u>
Income from operations	<u>22,323</u>	<u>17,165</u>
Nonoperating gains (losses)		
Investment income	17,272	10,383
Derivative valuation adjustments	1,807	1,355
Other, net	—	(519)
Gain on refinancing	—	1,042
Nonoperating gains, net	<u>19,079</u>	<u>12,261</u>
Revenue and gains in excess of expenses and losses before discontinued operations	41,402	29,426
Discontinued operations	88	44
Revenue and gains in excess of expenses and losses	41,490	29,470
Income attributable to noncontrolling interests	(1,670)	(1,238)
Revenues and gains in excess of expenses and losses attributable to Wellmont	39,820	28,232
Other changes in unrestricted net assets		
Change in net unrealized gains on investments	(9,534)	42,186
Net assets released from restrictions for additions to land, buildings, and equipment	3,766	2,852
Change in the funded status of benefit plans and other	(10,495)	2,771
Increase in unrestricted net assets	<u>23,557</u>	<u>76,041</u>
Changes in temporarily restricted net assets		
Contributions	6,661	2,566
Net assets released from temporary restrictions	(4,492)	(3,547)
Increase (decrease) in temporarily restricted net assets	<u>2,169</u>	<u>(981)</u>
Changes in permanently restricted net assets — investment income	130	6
Changes in noncontrolling interests		
Income attributable to noncontrolling interests	1,670	1,238
Distributions to noncontrolling interests	(1,261)	(1,178)
Change in noncontrolling percentages	—	(92)
Increase (decrease) in noncontrolling interests	<u>409</u>	<u>(32)</u>
Change in net assets	26,265	75,034
Net assets, beginning of year	441,761	366,727
Net assets, end of year	<u>\$ 468,026</u>	<u>441,761</u>

See accompanying notes to consolidated financial statements

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ 26,265	75,034
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	46,403	46,070
Gain on disposal of land, buildings, and equipment	(458)	(864)
Equity in earnings of affiliated organizations	(7,233)	(4,478)
Distributions from affiliated organizations	5,764	5,320
Amortization of deferred financing costs	428	158
Net realized and unrealized loss (gain) on investments	2,633	(43,162)
Provision for bad debts	71,407	37,893
Change in fair value of derivative instruments	(1,807)	(1,355)
Gain on refinancing	—	(1,042)
Changes in assets and liabilities		
Patient accounts receivable	(78,107)	(45,402)
Other current assets	(331)	303
Other assets	(13,920)	(538)
Accounts payable and accrued expenses	10,230	(6,729)
Estimated third-party payor settlements	6,002	(2,139)
Other current liabilities	(2,745)	1,276
Other liabilities	13,672	(63)
Net cash provided by operating activities	<u>78,203</u>	<u>60,282</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	149,087	186,085
Purchase of investments	(174,029)	(164,635)
Purchase of land, buildings, and equipment	(46,026)	(42,352)
Proceeds from the sale of buildings and equipment	1,721	244
Cash paid for acquisitions	(813)	(7,826)
Net cash used in investing activities	<u>(70,060)</u>	<u>(28,484)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	11,368	91,133
Payments on long-term debt	(11,139)	(106,069)
Payment of debt issuance costs	—	(2,015)
Payments on line of credit	—	(14,000)
Net cash provided by (used in) financing activities	<u>229</u>	<u>(30,951)</u>
Net increase in cash and cash equivalents	8,372	847
Cash and cash equivalents, beginning of year	36,558	35,711
Cash and cash equivalents, end of year	<u>\$ 44,930</u>	<u>36,558</u>
Supplemental disclosures of noncash items		
Wellmont entered into capital lease obligations for buildings and equipment in the amount of \$3,281 and \$5,785 in 2012 and 2011, respectively		
Additions to property and equipment financed through current liabilities of \$2,487 and \$2,933 in 2012 and 2011, respectively		

See accompanying notes to consolidated financial statements

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(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 foundation. Effective July 1, 1996, under terms of an agreement and plan of consolidation and merger, BRMC and HVHC, including HVMC, were merged and consolidated into Wellmont. Effective January 1, 1997, Lonesome Pine Hospital (LPH), a Virginia corporation, was merged into Wellmont under terms of a plan of merger and merger agreement. Effective July 1, 2000, Hawkins County Memorial Hospital (HCMH) transferred its operations and operating assets to Wellmont Hawkins County Memorial Hospital (WHCMH), a tax-exempt organization that is wholly owned and controlled by Wellmont. Hancock County Hospital (HCH), a critical access hospital, was opened in March 2005 to help provide for the immediate healthcare needs of the residents of Sneedville and the surrounding counties. As of July 16, 2007, Wellmont acquired Jenkins Community Hospital in Kentucky. As of August 1, 2007, Wellmont acquired two hospitals in Virginia, Lee Regional Medical Center in Pennington Gap and Mountain View Regional Medical Center in Norton. On May 30, 2008, Wellmont acquired the Holston Valley Cath Lab, an outpatient lab. On May 1, 2010, Wellmont acquired Cardiovascular Associates. On January 1, 2011, Wellmont acquired Pulmonary Associates of Kingsport.

As of April 30, 2009, Wellmont closed Jenkins. The consolidated financial statements for the years ended June 30, 2012 and 2011 present Jenkins as a discontinued operation. Losses of \$4 and \$120 for the years ended June 30, 2012 and June 30, 2011, respectively, are included in discontinued operations.

As of September 23, 2010, Wellmont sold the majority of Medical Mall Pharmacy's assets to a national pharmacy company for \$1,300 plus inventory value and recorded a gain of approximately \$517 at June 30, 2011. The consolidated financial statements for the years ended June 30, 2012 and 2011 present Medical Mall Pharmacy as a discontinued operation. The gains (losses) of \$92 and \$(353) for the years ended June 30, 2012 and June 30, 2011, respectively, are included in discontinued operations.

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

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

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

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

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

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

#### (2) Significant Accounting Policies

A summary of significant accounting policies is as follows:

##### (a) *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant estimates include allowances for contractual adjustments and bad debts, third-party payor settlements, valuation of investments, land, buildings, equipment and goodwill, and self-insurance and other liabilities. Actual results could differ from these estimates.

##### (b) *Cash and Cash Equivalents*

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

##### (c) *Investments*

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

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

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.

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

### (g) *Goodwill*

Effective July 1, 2010, Wellmont adopted Accounting Standards Update (ASU) No. 2010-07, *Not for Profit Entities: Mergers and Acquisitions* which in part requires healthcare entities to follow Accounting Standards Codification (ASC) Topic 350-20-35, *Intangibles – Goodwill and Other*. ASC Topic 350-20-35 requires goodwill of not-for-profit entities to be evaluated for impairment at least annually. The goodwill impairment test is a two-step test. Under the first step, the fair value of each reporting unit is compared with its carrying value (including goodwill). If the fair value of a reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. The annual impairment test is performed as of June 30. A summary of goodwill and related amortization for the years ended June 30 follows:

	<u>2011</u>	<u>Additions</u>	<u>Decreases</u>	<u>2012</u>
Goodwill	\$ 16,721	369	—	17,090

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

### (h) *Deferred Debt Expense*

Deferred debt expense is amortized over the life of the related bond issues using the effective-interest method.

### (i) *Derivative Financial Instruments*

As further described in note 12, Wellmont is a party to interest rate swap and other derivative agreements. These financial instruments are not designated as hedges and are presented at estimated fair market value in the accompanying consolidated balance sheets. These fair values are based on the estimated amount Wellmont would receive, or be required to pay, to enter into equivalent agreements with a third party at the valuation date. Due to the nature of these financial instruments, such estimates are subject to significant change in the near term. Wellmont recognizes changes in the fair values of derivatives as nonoperating gains or losses in the consolidated statements of operations and changes in net assets. The cash settlements resulting from these interest rate swaps are reported as interest expense in the consolidated statements of operations and changes in net assets.

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

**(j) *Asset Retirement Obligations***

Asset retirement obligations (AROs) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value, and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, Wellmont records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Wellmont derecognizes ARO liabilities when the related obligations are settled.

**(k) *Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by Wellmont has been limited by donors to a specific-time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Wellmont in perpetuity. Generally, donors of permanently restricted assets permit use of all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets relate primarily to amounts held by the Foundation and include amounts restricted for future capital expenditures and for operations of such areas as children's healthcare services, hospice, and cancer care.

Net assets are released from restrictions by Wellmont incurring expenses that satisfy the restricted purposes. Such net assets released during 2012 and 2011 primarily included amounts related to the purchase of equipment for pediatrics, cancer, and other healthcare operations.

Wellmont has adopted guidance issued by Financial Accounting Standards Board (FASB), which provides guidance on the net asset classification of donor-restricted endowment funds for a tax-exempt organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Effective July 1, 2007, the State of Tennessee adopted legislation that incorporates the provisions outlined in UPMIFA. Wellmont's endowments consist solely of donor-restricted endowment funds. Wellmont's endowments consist of five individual funds established for a variety of purposes.

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

Wellmont has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Wellmont classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Wellmont considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

#### ***(l) Net Patient Service Revenue and Accounts Receivable***

Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts expected to be collected. Net patient service revenue includes amounts estimated by management to be reimbursable by patients and various third-party payors under provisions of reimbursement formulas in effect, including retroactive adjustments under reimbursement agreements. Estimated retroactive adjustments are accrued in the period related services are rendered and adjusted in future periods as final and other settlements are determined. On the basis of historical experience, a significant portion of Wellmont's uninsured patients will be unable or unwilling to pay for the services provided. Therefore, Wellmont records a significant provision for bad debts related to uninsured patients in the period the services are provided. This provision for bad debts is presented on the statement of operations as a component of net patient revenue. Wellmont provides care to patients who meet criteria under its charity care policy without charge or at amounts less than its established rates. Because Wellmont does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue.

Patient accounts receivable are reported net of both an allowance for contractual adjustments and an allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare, Medicaid, and other third-party payment programs. Wellmont's policy does not require collateral or other security for patient accounts receivable. Wellmont routinely obtains assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans, or policies.

#### ***(m) Revenue and Gains in Excess of Expenses and Losses***

The consolidated statements of operations and changes in net assets include revenue and gains in excess of expenses and losses. Changes in unrestricted net assets that are excluded from revenue and gains in excess of expenses and losses, consistent with industry practice, include changes in net

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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unrealized gains (losses) on investments other than trading securities, changes in the funded status of Wellmont's defined-benefit plan, contributions of long-lived assets, including assets acquired using contributions that, by donor restriction, were to be used for the purposes of acquiring such assets, and cumulative effects of changes in accounting principles

For purposes of financial statement display, those activities directly associated with Wellmont's mission of providing healthcare services are considered to be operating activities. Nonoperating activities primarily include investment and related activities. Other operating revenues primarily include cafeteria, rental, meaningful use incentives, and income from affiliates.

#### **(n) Contributed Resources**

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted contributions, and are excluded from revenue and gains in excess of expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expiration of donor restrictions is reported when the donated or acquired long-lived assets are placed in service.

Unconditional promises to give cash or other assets are reported at fair value at the date the promise is received. Gifts are reported as either a temporarily or permanently restricted contribution if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions. Unrestricted contributions are included in other revenues.

#### **(o) Federal Income Taxes**

The Wellmont entities are primarily classified as organizations exempt from federal income taxes under Section 501(a) as entities described in Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included for these entities in the consolidated financial statements. The operations of Wellmont, Inc. are subject to state and federal income taxes, which are accounted for in accordance with ASC Topic 740, *Income Taxes*, however, such amounts are not material.

On July 1, 2007, Wellmont adopted new guidance issued on the accounting for uncertainty in income tax positions now codified into ASC 740. It also provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There was no impact on Wellmont's consolidated financial statements as a result of the adoption of the new guidance.

## WELLMONT HEALTH SYSTEM AND AFFILIATES

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#### **(p) New Accounting Pronouncements**

In August 2010, the Financial Accounting Standards Board issued ASU No 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosures purposes and that cost can be identified as direct and indirect costs of providing charity care. The adoption of ASU 2010-23 as of July 1, 2011 had no impact on the consolidated financial statements. In August 2010, the Financial Accounting Standards Board issued ASU No 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). ASU 2010-24 clarifies that healthcare entities should not net insurance recoveries against the related claim liability and that the claim liability amount should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 as of July 1, 2011 had no impact on the consolidated financial statements.

In July 2011, the Financial Accounting Standards Board issued ASU No 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). Wellmont adopted ASU 2011-07 on July 1, 2011 and applied it retrospectively to fiscal year 2011. Wellmont's presentation of provision for bad debts in the consolidated statements of operations and changes in net assets is now shown as a deduction from net patient service revenue. In addition, there are enhanced disclosures about the entities policies for recognizing revenue and assessing bad debts. The ASU also requires disclosures of patient service revenue as well as qualitative and quantitative information about changes in the allowance for doubtful accounts.

The Financial Accounting Standards Board issued ASU No 2011-08, *Intangibles – Goodwill and Other (Topic 350) Testing Goodwill for Impairment* (ASU 2011-08) in September 2011. ASU 2011-08 allows entities to assess qualitative factors first to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the initial determination is negative, then the entity does not need to perform the two-step impairment test. If the conclusion is otherwise, then the entity must perform the first step of the two-step impairment test. The adoption of ASU 2011-08 will be effective for Wellmont beginning in fiscal year 2013.

The Financial Accounting Standards Board issued ASU No 2011-11, *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11) in December 2011. This ASU requires improved disclosures about financial instruments and derivative instruments that are offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The adoption of ASU 2011-11 will be effective for Wellmont beginning in fiscal year 2014.

#### **(q) Reclassifications**

Certain 2011 amounts have been reclassified to conform to the 2012 consolidated financial statement presentation. The reclassifications had no impact on total assets or changes in net assets.

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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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>2012</u>	<u>2011</u>
Gross patient service revenue	\$ 2,398,999	2,260,489
Less		
Contractual adjustments and other discounts	(1,524,110)	(1,431,215)
Charity care	<u>(61,660)</u>	<u>(61,824)</u>
Net patient service revenue before provision for bad debts	813,229	767,450
Less provision for bad debts	<u>(71,407)</u>	<u>(37,858)</u>
Net patient service revenue	<u>\$ 741,822</u>	<u>729,592</u>

Wellmont's allowance for doubtful accounts is predominantly for self-pay patients and patient balances remaining after third-party payments. The provision for bad debts increased \$33,549 from fiscal 2011 to fiscal 2012 and the net write-offs increased \$31,272 from fiscal 2011 to fiscal 2012. Both increases were the result of negative trends experienced in the collection of amounts from patients in fiscal year 2012 as a result of the economic conditions and due to the increased proportion of patient financial responsibility for those patients with health insurance. Wellmont has not changed its charity care or uninsured discount policies during fiscal 2012. Wellmont does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

#### (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 Medicaid program is also based upon prospectively determined amounts.

## WELLMONT HEALTH SYSTEM AND AFFILIATES

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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.

Net patient service revenue in 2012 and 2011 related to Medicare, TennCare, and Medicaid and net patient accounts receivable at June 30, 2012 and 2011 from Medicare, TennCare, and Medicaid were as follows:

		<u>2012</u>	<u>2011</u>
Net patient service revenue			
Medicare	\$	312,202	285,821
TennCare		28,548	23,791
Medicaid		19,541	22,336
Net patient accounts receivable			
Medicare	\$	41,883	34,671
TennCare		2,957	2,798
Medicaid		5,244	3,427

Wellmont has filed cost reports with Medicare and Medicaid. The cost reports are subject to final settlement after audits by the fiscal intermediary. The Medicare and 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 hospitals 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 \$3,575 and \$2,319 in 2012 and 2011, 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, 2012 could differ materially from actual settlements based on the results of third-party audits.

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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#### (5) Meaningful Use Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record (EHR) technology. The Medicare incentive payments are paid out to qualifying hospitals and physician groups over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physician groups must meet EHR "meaningful use" criteria that become more stringent over three stages as determined by Centers for Medicare & Medicaid Services (CMS). Medicaid programs and payment schedules vary from state to state.

During the fiscal year ended June 30, 2012, Wellmont recorded \$13.1 million in other operating revenue related to the EHR and meaningful use incentives. These incentives have been recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria.

Amounts recognized represent management's best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates will be recognized in other operating revenue in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee.

#### (6) Charity Care and Community Services

Wellmont accepts all patients within its primary service area regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies that consider, among other factors, generally recognized poverty income levels.

Wellmont maintains records to identify and monitor the level of charity care it provides. Charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services, and the equivalent percentage of charity care patients to all patients serviced were \$61,660, \$16,144, and 2.57%, respectively, for the year ended June 30, 2012 and \$61,824, \$16,982, and 2.73%, respectively, for the year ended June 30, 2011.

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 \$44,432 and \$49,180, for the years ended June 30, 2012 and 2011, 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.

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

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### (7) 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 \$7,233 and \$4,478 for the years ended June 30, 2012 and 2011, respectively, and is included in other operating revenue in the consolidated financial statements. Wellmont received distributions of \$5,764 and \$5,320 during 2012 and 2011, 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:

		<b>2012</b>	<b>2011</b>
Total assets	\$	127,206	127,545
Total liabilities		27,732	31,326
Total net assets	\$	99,474	96,219
Net revenues	\$	228,644	184,648
Expenses		207,806	171,070
Revenues in excess of expenses	\$	20,838	13,578

Wellmont's equity investment in these affiliates and its ownership percentage as of June 30, 2012 and 2011 is as follows:

	<b>Amount</b>		<b>Percentage</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Takoma Regional Hospital	\$ 12,350	11,161	60%	60%
Holston Valley Imaging Center (HVIC)	8,818	8,689	75	75
Advanced Home Care (AHC)	6,092	6,092	6	6
Lab Group Holdings LLC	3,500	3,500	1	1
Others	1,886	1,735	4% – 50%	4% – 50%
	\$ 32,646	31,177		

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.

Wellmont provided billing, management, and professional services to some of the affiliates. Income recognized by Wellmont for the services was \$929 in 2012 and \$943 in 2011 and is included in other revenues.

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

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During the fiscal year ended June 30, 2012, Takoma Regional Hospital recorded \$3.2 million in net revenue related to the EHR and meaningful use incentives of which \$1.9 million is included as income in affiliates in Wellmont's consolidated financial statements. These incentives have been recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria.

Included in other receivables are \$374 and \$320 as of June 30, 2012 and 2011, respectively, of amounts due to Wellmont from these entities.

### (8) Investments

Long-term investments, including assets limited as to use, at June 30 are reported at fair value and consist of the following:

	<u>2012</u>	<u>2011</u>
Assets limited as to use by Board for capital improvements		
Stock mutual funds	\$ 88,942	80,413
Bond mutual funds	163,401	119,836
Cash and money market funds	1,492	904
Real estate funds	7,157	8,475
Alternative investments (private equity, hedge funds, commingled funds, and real estate funds)		
Liquid	9,616	37,421
Illiquid	27,373	26,837
	<u>297,981</u>	<u>273,886</u>
Assets limited as to use under self-insurance agreements		
Corporate bonds	2,673	7,877
Cash and money market funds	32	652
	<u>2,705</u>	<u>8,529</u>
Assets limited as to use under bond indenture agreements		
Cash and money market funds	42,716	37,659
U.S. Treasury bonds	—	1,215
Less assets limited as to use that are required for current liabilities	4,372	1,902
Assets limited as to use, net of current portion	<u>\$ 339,030</u>	<u>319,387</u>

# WELLMONT HEALTH SYSTEM AND AFFILIATES

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	<u>2012</u>	<u>2011</u>
Long-term investments		
Stock mutual funds	\$ 10,321	10,897
Bond mutual funds	13,926	10,734
Preferred equity investment and related option	11,512	11,512
Cash, money market funds, and certificates of deposit	189	191
Real estate funds	685	832
Alternative investments (private equity, hedge funds, commingled funds, and real estate funds)	—	2,271
Total long-term investments	<u>\$ 36,633</u>	<u>36,437</u>

Investments in certain alternative limited partnership investments contain agreements whereby Wellmont is committed to contribute approximately \$6,705 as of June 30, 2012 of additional funds to the limited partnerships in the form of capital calls at the discretion of the general partner, of which \$157 was paid subsequent to June 30, 2012

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, Wellmont recognized other-than-temporary impairment losses of \$265 and \$610 on investments as of June 30, 2012 and 2011, 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.

# WELLMONT HEALTH SYSTEM AND AFFILIATES

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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, 2012 and 2011, were as follows

	Less than 12 months		12 months or more		Total	
	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value
2012						
Alternative investments	\$ 129	52	—	—	129	52
Mutual funds	2,692	55,142	2,903	15,407	5,595	70,549
	<u>\$ 2,821</u>	<u>55,194</u>	<u>2,903</u>	<u>15,407</u>	<u>5,724</u>	<u>70,601</u>
	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
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>

Investment income comprises the following for the years ended June 30

	2012	2011
Interest and dividends net of amounts capitalized	\$ 10,371	9,407
Realized gains on investments	6,901	976
Investment income, net	<u>\$ 17,272</u>	<u>10,383</u>
Change in net unrealized (losses) gains on investments	\$ (9,534)	42,186

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

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### (9) Land, Buildings, and Equipment

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

	<b>2012</b>	<b>2011</b>
Land	\$ 49,397	49,060
Buildings and improvements	526,243	509,382
Equipment	364,973	328,604
Buildings and equipment under capital lease obligations	42,404	39,661
	<u>983,017</u>	<u>926,707</u>
Less accumulated depreciation	<u>(527,828)</u>	<u>(484,187)</u>
	455,189	442,520
Construction in progress	<u>2,859</u>	<u>12,417</u>
Land, buildings, and equipment	<u><u>\$ 458,048</u></u>	<u><u>454,937</u></u>

Depreciation expense for the years ended June 30, 2012 and 2011 was \$46,359 and \$46,070, 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 \$17,234 and \$15,336 as of June 30, 2012 and 2011, respectively.

### (10) Other Long-Term Liabilities

Other long-term liabilities at June 30 consist of the following

	<b>2012</b>	<b>2011</b>
Workers' compensation liability	\$ 9,097	7,812
Professional and general liability	12,535	12,830
Postretirement benefit obligation	7,039	7,763
Asset retirement obligation	2,994	2,912
Deferred gain on sale of assets	439	628
Derivative liability	9,781	11,588
Pension benefit liability	17,290	6,526
Other	<u>667</u>	<u>852</u>
	59,842	50,911
Less current portion	<u>(5,782)</u>	<u>(8,527)</u>
Total other long-term liabilities	<u><u>\$ 54,060</u></u>	<u><u>42,384</u></u>

# WELLMONT HEALTH SYSTEM AND AFFILIATES

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### (11) Debt

#### (a) Long-Term Debt

Long-term debt consists of the following at June 30

	2012	2011
Hospital Revenue Refunding Bonds, Series 2011	\$ 76,165	76,165
Hospital Revenue Bonds, Series 2010 (Bank Qualified)	24,836	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 2005	57,250	59,580
Hospital Revenue Bonds, Series 2003	29,230	33,035
Notes payable	3,102	4,749
Capital lease obligations	18,514	16,889
Other	826	859
	<hr/> 464,923	<hr/> 461,245
Unamortized premium	7,005	7,287
Unamortized discount	(361)	(377)
	<hr/> 471,567	<hr/> 468,155
Less current maturities	(11,913)	(9,273)
	<hr/> <hr/> \$ 459,654	<hr/> <hr/> 458,882

#### (b) Series 2011 Bonds

On May 5, 2011, Wellmont refunded the Revenue Bonds, Series 2006A, with the proceeds of the Revenue Bonds, Series 2011. The Series 2011 Bonds were issued by Health, Educational, and Housing Facilities Board of the County of Sullivan, Tennessee on behalf of Wellmont. Under the terms of the bond indenture, the proceeds were used to advance refund the Revenue Bonds, Series 2006A and to pay the costs of issuing the Series 2011 Bonds.

In order to refund the Series 2006A Bonds, Wellmont made a tender offer to the holders of the Series 2006A Bonds. The holders of all outstanding Series 2006A Bonds agreed to tender their Series 2006A Bonds to Wellmont. Proceeds of the Series 2011 Bonds were used to pay the purchase price of Series 2006A Bonds tendered for purchase. All outstanding Series 2006A Bonds were purchased by the Wellmont on the date of issuance of the Bonds and were immediately surrendered to the trustee for the Series 2006A Bonds for retirement and cancellation.

The Series 2011 Bonds were issued with two maturities of \$42,385 and \$33,780 for 2026 and 2032, respectively. The Series 2011 Bonds maturing September 1, 2026 are subject to mandatory redemption prior to maturity pursuant to the operation of a sinking fund, in part by lot starting on the redemption dates beginning on September 1, 2013 and ending on September 1, 2026 in annual

## WELLMONT HEALTH SYSTEM AND AFFILIATES

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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 beginning 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. During the fiscal year ended June 30, 2012 and 2011, Wellmont has received advances on the bonds in the amounts of \$11,368 and \$14,968, respectively.

Commencing on January 1, 2011, and continuing on the first day of each fiscal quarter thereafter, Wellmont 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, Wellmont shall also make principal payments equal to \$500. 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, 2012 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 5.250%.

**(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.

## WELLMONT HEALTH SYSTEM AND AFFILIATES

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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 1.50% per annum, (ii) LIBOR plus 2.50% per annum, or (iii) 7.50% per annum. Wellmont shall repay the liquidity drawing amount in 12 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.

## WELLMONT HEALTH SYSTEM AND AFFILIATES

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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. In August 2011, Wellmont renewed this note agreement in the amount of \$1,760 with a variable interest rate indexed to the Wall Street Journal U.S. Prime Rate with a ceiling of 7.75% and a floor of 4.00% and a maturity date of August 2016. At June 30, 2012 and 2011, \$1,540 and \$1,784, respectively, was outstanding on this note.

During 2009, Wellmont entered into a five-year \$2,400 term note payable with a variable interest rate indexed to the Wall Street Journal U.S. Prime Rate and a maturity date of October 2013. At June 30, 2012 and 2011, \$640 and \$1,120, 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, 2012 and 2011, \$922 and \$1,845, respectively, was outstanding on this note.

#### *(k) Capital Lease Obligations*

Assets under capital leases are included in property and equipment and have a net carrying value of \$25,170 and \$24,325 as of June 30, 2012 and 2011, 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 12.0%.

#### *(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, 2012 are as follows:

2013	\$	11,913
2014		10,230
2015		10,294
2016		10,610
2017		11,253
Thereafter		410,623
	\$	<u>464,923</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

2013	\$	11,913
2014		21,390
2015		25,907
2016		26,103
2017		12,916
Thereafter		366,694
	\$	<u>464,923</u>

Interest paid for the years ended June 30, 2012 and 2011 was \$22,216 and \$21,957, respectively, net of amounts capitalized. Interest costs of \$0 and \$590, net of interest income of \$0 and \$49 in 2012 and 2011, 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, 2012 and 2011, 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.

# WELLMONT HEALTH SYSTEM AND AFFILIATES

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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, 2012 and 2011 of approximately \$(9.781) and \$(11.588), respectively, is included in other long-term liabilities in the consolidated balance sheets. The change in the fair value of the derivative instruments was approximately \$1.807 and \$1.355, respectively, in 2012 and 2011 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, 2012.

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	1.530%	6.200%	\$ 2.888
Pay fixed interest rate swap	Series 2005	57.250	December 13, 2005	September 1, 2016	3.548	0.165	(6.471)
Basis swap	Series 2002	60.765	September 1, 2002	September 1, 2032	0.180	0.339	(1.662)
Pay fixed interest rate swap	*	32.880	October 24, 2003	September 1, 2021	3.613	0.165	(4.536)
							<u>\$ (9.781)</u>

\* Previously designated bond series has been refinanced

The following is a schedule detailing the 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	0.124	(5.954)
Basis swap	Series 2002	62.730	September 1, 2002	September 1, 2032	0.090	0.181	(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

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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#### **(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 \$10,346 and \$10,344 for the years ended June 30, 2012 and 2011, respectively.

HVMC sponsored a noncontributory, defined-benefit pension plan covering substantially all its employees. However, effective June 30, 1996, this plan was frozen and no further benefits accrue. LPH also sponsors a defined-benefit pension plan covering substantially all its employees.

HVMC's defined-pension benefits are actuarially determined based on a formula taking into consideration an employee's compensation and years of service. HVMC's funding policy is to make annual contributions to the plan based upon the funding standard developed by the plan actuary. This standard uses the projected unit credit actuarial cost method, including the amortization of prior service costs, over a 20-year period. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The LPH plan contains similar funding and actuarial policies.

On June 30, 2007, the HVMC plan merged into LPH plan and the plan name changed to Wellmont Health System Defined Benefit Plan. At the end of 2008, only a single defined-pension plan exists. Collectively, the two defined-benefit plans are referred to as the "Plans." 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.

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

The following table sets forth the funded status of the combined Plans, amounts recognized in the accompanying consolidated financial statements, and assumptions at June 30

	<u>2012</u>	<u>2011</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 45,337	44,565
Service cost	—	220
Interest cost	2,422	2,390
Actuarial losses	8,614	896
Benefits paid	(2,292)	(2,239)
Curtailments *	—	(495)
Benefit obligation at end of year	<u>54,081</u>	<u>45,337</u>
Change in plan assets		
Fair value of plan assets at beginning of year	38,811	34,547
Actual return on plan assets	(304)	6,503
Employer contribution	576	—
Benefits paid	(2,292)	(2,239)
Fair value of plan assets at end of year	<u>36,791</u>	<u>38,811</u>
Funded status	<u>\$ (17,290)</u>	<u>(6,526)</u>
Amounts recognized in the accompanying consolidated balance sheets		
Pension benefit liability (other long-term liabilities)	\$ (17,290)	(6,526)

\* Reflects frozen benefit accruals for Lonesome Pine participants as of June 30, 2011

# WELLMONT HEALTH SYSTEM AND AFFILIATES

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	<u>2012</u>	<u>2011</u>
Amounts not yet reflected in net periodic benefit cost and included as an accumulated charge to unrestricted net assets		
Unrecognized actuarial loss	\$ 19,773	8,565
Unrecognized prior service cost	<u>—</u>	<u>—</u>
Net amounts included as an accumulated charge to unrestricted net assets	<u>\$ 19,773</u>	<u>8,565</u>
Calculation of change in unrestricted net assets		
Accumulated charge to unrestricted net assets, end of year	\$ 19,773	8,565
Reversal of accumulated charge to unrestricted net assets, prior year	<u>(8,565)</u>	<u>(13,160)</u>
Change in unrestricted net assets	<u>\$ 11,208</u>	<u>(4,595)</u>
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Prior service credit adjustment for curtailment	\$ —	(1)
Actuarial loss (gain) arising during the year	11,577	(3,763)
Amortization of actuarial loss	(369)	(831)
Amortization of prior service cost	<u>—</u>	<u>—</u>
Net amounts recognized in unrestricted net assets	<u>\$ 11,208</u>	<u>(4,595)</u>

# WELLMONT HEALTH SYSTEM AND AFFILIATES

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	<u>2012</u>	<u>2011</u>
Estimate of amounts that will be amortized from unrestricted net assets to net pension cost in 2012		
Amortization of net loss	\$ 2.186	382
Amortization of prior service cost	—	—
Estimated future benefit payments		
Fiscal 2012	—	2,276
Fiscal 2013	2,609	2,369
Fiscal 2014	2,732	2,492
Fiscal 2015	2,821	2,596
Fiscal 2016	2,996	2,671
Fiscal 2017 – 2021	16,054	14,819
Weighted average assumptions used to determine benefit obligations		
Settlement (discount) rate	4.00%	5.50%
Weighted average rate of increase in future compensation levels	N/A	N/A
Components of net periodic benefit cost (benefit)		
Service cost	\$ —	220
Interest cost	2,422	2,390
Expected return on plan assets	(2,658)	(2,340)
Amortization of net loss	369	831
Amortization of unrecognized prior service cost curtailments	—	1
Net periodic benefit cost	<u>\$ 133</u>	<u>1,102</u>
Weighted average assumptions used to determine net periodic benefit cost		
Settlement (discount) rate	5.50%	5.50%
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	N/A	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.

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

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The table below shows the target allocation and actual asset allocations as of June 30, 2012 and 2011

Asset	Target allocation	2012	2011
Equity securities	65%	47%	46%
Fixed income	28	32	35
Cash	5 – 15%	2	2
Other	5 – 15%	19	17

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.

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	
	2012	2011
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 7.763	5.861
Interest cost	298	365
Plan participants contributions	34	79
Actuarial losses	(975)	1,686
Benefits paid	(81)	(228)
Benefit obligation at end of year	7,039	7,763
Change in plan assets		
Fair value of plan assets at beginning of year	—	—
Employer contribution	47	149
Plan participants contributions	34	79
Benefits paid	(81)	(228)
Fair value of plan assets at end of year	—	—
Funded status	\$ 7,039	7,763

# WELLMONT HEALTH SYSTEM AND AFFILIATES

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	<b>Postretirement benefits</b>	
	<b>2012</b>	<b>2011</b>
Amounts recognized in the consolidated balance sheets consist of		
Noncurrent assets	\$ —	—
Current liabilities	(245)	(271)
Noncurrent liabilities	(6,794)	(7,492)
Accumulated charge to unrestricted net assets	2,469	1,755
	<u>\$ (4,570)</u>	<u>(6,008)</u>

Amounts recognized as an accumulated credit to unrestricted net assets consist of

	<b>2012</b>	<b>2011</b>
Net actuarial gain	\$ 2,469	1,755

Net periodic benefit cost recognized and other changes in plan assets and benefit obligations recognized in unrestricted net assets in 2012 and 2011 were

	<b>Postretirement benefits</b>	
	<b>2012</b>	<b>2011</b>
Net periodic benefit cost		
Interest cost	\$ 299	365
Amortization of net gain	(262)	(119)
Net periodic benefit cost recognized	<u>37</u>	<u>246</u>
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Net actuarial loss	(975)	1,686
Amortization of net gain	262	119
Total recognized in unrestricted net assets	<u>(713)</u>	<u>1,805</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (676)</u>	<u>2,051</u>

# WELLMONT HEALTH SYSTEM AND AFFILIATES

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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 \$(168) and \$(88), respectively. Weighted average assumptions used to determine benefit obligations for 2012 and 2011 were as follows

	<b>2012</b>	<b>2011</b>
Discount rate	3.50%	5.00%
Rate of compensation increase	—	—
Healthcare cost trend rate	5.00	5.00

Weighted average assumptions used to determine net benefit cost for 2012 and 2011 were as follows

	<b>Postretirement benefits</b>	
	<b>2012</b>	<b>2011</b>
Discount rate	5.00%	5.00%
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

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 2012.

The following table summarizes the effect of one-percentage-point increase/decrease in healthcare costs trends.

	<b>2012</b>	<b>2011</b>
Effect of one-percentage-point increase in healthcare cost trend on		
Service and interest cost	\$ 21	27
Accumulated pension benefit obligation	533	545
Effect of one-percentage-point decrease in healthcare cost trend on		
Service and interest cost	\$ (19)	(24)
Accumulated pension benefit obligation	(473)	(486)

# WELLMONT HEALTH SYSTEM AND AFFILIATES

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The asset allocations of Wellmont's pension and postretirement benefits as of June 30, 2012 and 2011, respectively, were as follows

Fair value measurement at June 30, 2012				
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	\$ 29,223	29,223	—	—
Cash and money market funds	578	578	—	—
Alternative funds	6,990	—	3,443	3,547
Total	\$ 36,791	29,801	3,443	3,547
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	632	632	—	—
Alternative funds	6,868	—	3,280	3,588
Total	\$ 38,811	31,943	3,280	3,588

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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, 2012 and 2011

	<u>Alternative investments</u>
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)	<u>(3,280)</u>
Balance at June 30, 2011	3,588
Net change in value	(29)
Purchases, issuances, and settlements	(12)
Transfers in and/or out of Level 3 (net)	<u>—</u>
Balance at June 30, 2012	<u><u>\$ 3,547</u></u>

#### (14) Self-Insurance Programs

Wellmont is self-insured for professional and general liability and workers' compensation liability. Consulting actuaries have been retained to determine funding requirements and estimate claim liability exposures. Wellmont has established revocable self-insurance trust funds to provide for professional and general liability claims and workers' compensation claims and related expenses. Wellmont's contributions to the self-insurance trusts are based upon actuarial determinations by an independent service company. The professional and general liability self-insurance program is supplemented by umbrella excess liability policies consisting of various layers of coverage with commercial carriers based on policy year. The workers' compensation program is supplemented for Tennessee and Virginia by excess workers' compensation policies, with a commercial carrier for statutory limits per occurrence. Provisions based on actuarial estimates are made for the ultimate cost of claims asserted, as well as estimates of claims incurred but not reported as of the respective consolidated balance sheet dates. Workers' compensation expense under these programs amounted to approximately \$4,100 and \$4,056 for the years ended June 30, 2012 and 2011, respectively, and are included in salaries and benefits expense in the accompanying consolidated statements of operations and changes in net assets. All other self-insurance expense under these programs amounted to approximately \$2,763 and \$3,097 for the years ended June 30, 2012 and 2011, respectively, and are included in other expense in the accompanying consolidated statements of operations and changes in net assets.

At June 30, 2012 and 2011, Wellmont was involved in litigation relating to medical malpractice and workers' compensation claims arising in the ordinary course of business. There are also known incidents that occurred through June 30, 2012 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, 2012 are adequate.

## WELLMONT HEALTH SYSTEM AND AFFILIATES

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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, 2012 and 2011 relates primarily to the completion of certain buildings and renovations. Total costs to complete these and other projects were approximately \$2.768 at June 30, 2012. Wellmont has entered into contracts of \$2.768 related to these projects.

Wellmont leases certain equipment and office space under operating lease agreements. Total rental expense under cancelable and noncancelable agreements was \$19,391 and \$18,179 for the years ended June 30, 2012 and 2011, respectively. Minimum future lease payments under noncancelable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2012 are as follows:

2013	\$	13,473
2014		7,613
2015		6,564
2016		4,527
2017		4,364
Thereafter		19,713
	\$	<u>56,254</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 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.

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

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#### (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:

	<u>2012</u>	<u>2011</u>
Professional care of patients	\$ 619,560	598,545
Administrative and general	146,740	142,768
Fund-raising	1,103	913
	<u>\$ 767,403</u>	<u>742,226</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 carryforwards for federal income tax purposes of approximately \$84,000 at June 30, 2012, 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 \$1,800 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, 2012 and 2011.

#### (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, 2012 and 2011, was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	50%	42%
TennCare	5	4
Medicaid	7	9
Other third-party payors	31	35
Patients	7	10
	<u>100%</u>	<u>100%</u>

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

#### (19) Disclosures about Fair Value of Financial Instruments

##### (a) *Fair Value of Financial Instruments*

The following methods and assumptions were used to estimate fair value of each class of instruments

- *Cash and Cash Equivalents*

The carrying amount approximates fair value due to the short maturities of these instruments

- *Patient Accounts and Other Receivables*

The net recorded carrying value approximates fair value due to the short maturities of these instruments

- *Investments and Assets Limited as to Use*

The fair values of investments and assets limited as to use are based on quoted market prices and quotes obtained from security brokers or, in the case of the limited partnerships, by the general partner

- *Accounts Payable and Accrued Expenses*

The carrying amount approximates fair value due to the short maturities of these liabilities

- *Estimated Third-Party Payor Settlements, Other Long-Term Liabilities*

The carrying amount approximates fair market value due to the nature of these liabilities

- *Long-Term Debt*

The fair value of revenue bonds, using current market rates, was estimated at \$436,634 and \$419,960 for the years ended June 30, 2012 and 2011, respectively

## WELLMONT HEALTH SYSTEM AND AFFILIATES

### Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

**(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 Measurement*. 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 measurements) 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.

Wellmont also applies the measurement provisions of ASU 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 \$36,989 and \$66,529 at June 30, 2012 and 2011, respectively.

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

The following table presents assets and liabilities that are measured at fair value on recurring basis at June 30, 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 44,930	—	—	44,930
Assets limited as to use				
Stock mutual funds	88,942	—	—	88,942
Bond mutual funds	163,401	—	—	163,401
Cash and money market funds	44,240	—	—	44,240
Real estate funds	7,157	—	—	7,157
Alternative investments	—	—	36,989	36,989
Corporate bonds	2,673	—	—	2,673
U S Treasury bonds	—	—	—	—
Subtotal	<u>351,343</u>	<u>—</u>	<u>36,989</u>	<u>388,332</u>
Long-term investments				
Stock mutual funds	10,321	—	—	10,321
Bond mutual funds	13,926	—	—	13,926
Cash and money market funds	189	—	—	189
Real estate funds	685	—	—	685
Alternative investments	—	—	—	—
Subtotal	<u>25,121</u>	<u>—</u>	<u>—</u>	<u>25,121</u>
	<u>\$ 376,464</u>	<u>—</u>	<u>36,989</u>	<u>413,453</u>
<b>Liabilities</b>				
Derivatives liability	\$ —	9,781	—	9,781
Total	<u>\$ —</u>	<u>9,781</u>	<u>—</u>	<u>9,781</u>

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

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>
<b>Assets</b>				
Cash and cash equivalents	\$ 36,558	—	—	36,558
Assets limited as to use				
Stock mutual funds	80,413	—	—	80,413
Bond mutual funds	119,836	—	—	119,836
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	10,890	—	—	10,890
Bond mutual funds	10,741	—	—	10,741
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>
<b>Liabilities</b>				
Derivatives liability	\$ —	11,588	—	11,588
Total	<u>\$ —</u>	<u>11,588</u>	<u>—</u>	<u>11,588</u>

# WELLMONT HEALTH SYSTEM AND AFFILIATES

## Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

The following table presents Wellmont's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820 for the years ended June 30, 2012 and 2011

	<u>Alternative investments</u>
Balance at June 30, 2010	\$ 39,362
Total realized and unrealized gains (losses)	
Included in revenues and gains in excess of expenses and losses	—
Included in changes in net assets	(3,401)
Purchases, issuances, and settlements	1,817
Transfers in and/or out of Level 3 (net)	—
Balance at June 30, 2011	37,778
Total realized and unrealized gains (losses)	
Included in revenues and gains in excess of expenses and losses	264
Included in changes in net assets	(420)
Purchases, issuances, and settlements	(633)
Transfers in and/or out of Level 3 (net)	—
Balance at June 30, 2012	\$ <u>36,989</u>

### (20) Subsequent Events

On September 7, 2012, Wellmont entered into a \$55 million contract with a major information systems service provider to replace its clinical information systems. Wellmont expects to spend approximately \$100 million on the project.

Wellmont has evaluated subsequent events from the balance sheet date through October 24, 2012, the date at which the financial statements were available to be issued. No other material subsequent events were identified for recognition.