

**Wellmont Summary for the Fiscal Years**  
**Ended June 30, 2011 through June 30, 2015**

**Volumes:**

**Fiscal Year ended June 30, 2011:**

Inpatients were up 690 or 1.7% and observation patients were up 1,311 or 13.8% (so total “patients in a bed” were up 2,001 or 3.9%). Emergency room visits were down 1.9% primarily due to utilization trends. Other outpatient volumes were up 3.0%. Surgeries were up 2.3% entirely due to outpatient volumes. Deliveries were down 8.1% due to obstetrician turnover at Holston Valley Medical Center and Lonesome Pine Hospital. Physician office visits were up 20.4% primarily due to the acquisitions of a large cardiology practice in May 2010 and a pulmonology practice in January 2011.

**Fiscal Year ended June 30, 2012:**

Inpatients were down 1,949 or 4.6% and observation patients were up 2,828 or 26.1% (so total “patients in a bed” were up 879 or 1.7%), due to a change in post-surgical patient classification and to continued managed care payor changes. Emergency room visits were the same as last year and other hospital outpatient volumes were up 5.1%. Surgical volumes were the same as last year and deliveries were down 1.7%. Physician office visits were up 15.9% primarily due to the acquisitions of a cardiology practice in October 2011 and a multispecialty practice in January 2012.

**Fiscal Year ended June 30, 2013:**

Inpatients were down 2,323 or 5.8% and observation patients were up 72 or 0.5% (so total “patients in a bed” were down 2,251 or 4.2%) primarily due to reduced inpatient utilization from the implementation of the accountable care organizations in our area. Emergency room visits were down 6.7% due to Wellmont now having three urgent care centers as a more cost effective and patient friendly alternative, other outpatient volume was up 0.5%, and surgeries were down 2.6%. Deliveries were up 14.3% as a result of new physicians and physician office visits were up 17.2% primarily due to the urgent care centers and the acquisitions of a cardiology practice in October 2011 and a multispecialty practice in January 2012.

**Fiscal Year ended June 30, 2014:**

Inpatients were down 2,066 or 5.7% and observation patients were up 1,192 or 9.2% (so total “patients in a bed” were down 874 or 1.8%) primarily due to reduced utilization from the implementation of the accountable care organizations and high deductible plans in our area. Emergency room visits were down 4.7% due to Wellmont now having four urgent care centers and surgeries were down 2.2%, with all of the surgery decrease coming from the ambulatory surgery centers which is attributed to the increase in high deductible plans in our area.

Deliveries were down 99 or 4.3%. Physician office visits were up 2.6%, including urgent care visits which were up 30.5% due to Wellmont now having four urgent care centers.

Fiscal Year ended June 30, 2015:

Inpatients were down 1,320 or 3.8% and observation patients were up 2,488 or 17.5% (so total "patients in a bed" were up 1,168 or 2.4%) primarily due to reduced inpatient utilization from the implementation of the accountable care organizations and high deductible plans in our area and the continued shift to observation patient status. Emergency room visits were up 4.7%, surgeries were down 2.3%, and deliveries were up 1.6%. Outpatient volumes are generally up, especially due to the expansion of infusion centers (visits up 64%) and urgent care centers (visits up 88%).

**Statement of Operations:**

Fiscal Year ended June 30, 2011:

Net patient revenue increased \$23.2 million and bad debt expense increased \$1.8 million over fiscal 2010, so the net change of these two lines is an increase of \$21.4 million or 3.3%. Other revenue decreased as a result of lower performance related to the Takoma, imaging and lab joint ventures.

Salaries and benefits increased by \$6.2 million or 2.0% driven by the higher volumes, an increase in FTEs for patient care as well as to support computerized order entry and electronic health record system build and implementation. Supplies increased by \$8.3 million or 5.5% driven by the higher volumes and higher drug costs, particularly in oncology. Purchased services increased by \$3.5 million as a result of physician fees at the hospitals, a new urgent care operation, and physician practice management and system implementation costs. Interest and depreciation increases are related to the completion of Project Platinum.

Income from operations of \$17.2 million for fiscal 2011 was below fiscal 2010 of \$22.8 million.

Fiscal Year ended June 30, 2012:

Net patient revenue increased \$12.2 million or 1.7% over fiscal 2011. Other revenue increased \$18.1 million primarily as a result of the Electronic Health Record Meaningful Use amounts earned during the year, with \$13.1 million earned by Wellmont Health System hospitals and physician practices and \$3.2 million earned by Takoma Regional Hospital (of which Wellmont Health System owns 60% so recorded \$1.9 million). However, significant costs were incurred to purchase and implement the systems necessary to achieve Meaningful Use. This includes approximately \$13 million of capital costs which resulted in approximately \$5 million of annual depreciation and maintenance costs plus \$4.6 million of staff costs to implement the systems.

Salaries and benefits increased \$21.6 million or 6.2% primarily due to the physician practice acquisitions (\$9.5 million) and the \$4.6 million to implement the systems. Hospital productivity

improved, as hours per adjusted discharge decreased 6.7%. Supplies increased \$3.8 million or 2.4% primarily due to growth in infusion volumes, particularly in oncology.

Income from operations of \$22.3 million for fiscal 2012 exceeded fiscal 2011 of \$17.2 million.

Fiscal Year ended June 30, 2013:

Net patient service revenue increased \$14.0 million or 1.9% from fiscal 2012. Other revenue decreased \$4.2 million primarily as a result of lower volumes in subsidiaries providing services to hospitals such as laundry and blood services (\$1.5 million) and lower earnings in an imaging joint venture (\$1.3 million). Note that there was \$13.7 million of Electronic Health Record Meaningful Use amounts earned in fiscal 2013 which is essentially the same as fiscal 2012 amounts of \$13.2 million.

Salaries and benefits increased \$12.9 million or 3.5%, primarily driven by the physician practice growth and acquisitions and an increase in healthcare benefit costs due to increasing enrollment. Supplies decreased \$0.4 million or 0.3%. Purchased services increased \$1.4 million or 1.8% from several factors, the largest of which are from changes in the hospital physician services such as anesthesia and emergency medicine. Interest expense was essentially unchanged. Depreciation increased \$5.0 million or 10.7% primarily for systems necessary to achieve Meaningful Use.

Income from operations of \$12.9 million for fiscal 2013 was below fiscal 2012 of \$22.3 million.

Fiscal Year ended June 30, 2014:

Net patient service revenue increased \$5.3 million or 0.7% compared to fiscal 2013. The acquisition of Wexford House and consolidation of Holston Valley Imaging Center added \$11.3 million of net revenue, while the same store net revenue decreased \$6.0 million due to Medicare reimbursement reductions and volume decreases.

Other revenue decreased \$12.7 million primarily as a result of (a) \$7.2 million of Electronic Health Record Meaningful Use amounts earned in fiscal 2014 being \$5.1 million below fiscal 2013 amounts of \$12.3 million due to the scheduled annual decreases in the program's payments, (b) blood bank revenue reductions of \$3.4 million due to the loss of a significant contract, and (c) \$1.9 million from lower performance of the managed care, home care and Takoma joint ventures.

Salaries and benefits increased slightly by \$1.2 million or 0.3%. Supplies increased \$4.1 million or 2.5% primarily in chemotherapy drug volume and cost. Purchased services decreased \$4.0 million or 5.2% due to changes in physician agreements. Interest expense decreased by \$1.9 million or 9.6% due to the capitalization of interest for the Epic electronic health record project and scheduled decreases in outstanding principal. Depreciation increased by \$0.6 million or 1.2%. Lease and rental decreased by \$2.4 million or 13.3% due to the conversion of some operating leases to capital leases. Other expenses increased \$5.6 million or 20.8% primarily

due to an increase in the professional and general liability expense of \$3.5 million and to the change in allocation of support services costs as a result of the closure of Lee Regional Medical Center.

Income from operations of \$4.8 million for fiscal 2014 was below fiscal 2013 of \$15.4 million.

Fiscal Year ended June 30, 2015:

Net patient service revenue increased \$47.7 million or 6.4% compared to fiscal 2014 due to (a) the Wexford House acquisition in December 2013 and the HVIC acquisition at the end of March 2014 and (b) the increase in other outpatient revenue. Other revenue decreased \$7.7 million primarily as a result of (a) \$3.2 million of Electronic Health Record Meaningful Use amounts earned in fiscal 2015 being \$4.0 million below fiscal 2014 amounts of \$7.2 million due to reduced payments from lower volumes and the scheduled annual decreases in the program's payments, (b) blood bank revenue reductions of \$1.7 million due to the loss of a significant contract, and (c) \$3.0 million decrease from the prior investment in HVIC now being consolidated in each line of the statement of operations.

Salaries and benefits increased \$25.6 million or 6.9% as a result of (a) the acquisitions noted above and (b) one-time five year physician retention compensation earned. Supplies were up 1.2%. Purchased services increased 2.8%. Interest expense decreased 3.2%. Depreciation increased \$8.5 million or 17.0% due to the Epic system going live in April 2014. All other expenses increased 0.6%.

Income from operations of \$6.7 million for fiscal 2015 was above fiscal 2014 of \$4.8 million.

**Balance Sheet and Ratios:**

Fiscal Year ended June 30, 2011:

In May 2011, the Series 2006A bonds (par \$76,595,000) were refunded with the Series 2011 bonds (par \$76,165,000). The total return swap associated with the Series 2006A bonds was terminated and a new total return swap associated with the Series 2011 bonds was initiated with a different counterparty. Also in May 2011, the letter of credit provider on the Series 2005 bonds was replaced with a different letter of credit provider. In November 2010, a \$30 million bank qualified loan was issued with a cumulative drawdown of \$15 million at June 30, 2011. This partially offset the use of \$13 million in the first quarter to pay off the taxable bond issue. \$7 million of the short term note payable was repaid in January 2011 and the remaining \$7 million was repaid in June 2011. The purchase of the pulmonary practice that operated a free standing ambulatory surgery center and two sleep laboratories resulted in the increase in goodwill. Net patient receivables grew as a result of our physician practice acquisitions and billing system conversion. Debt to capitalization and debt service coverage both improved. Days cash on hand decreased slightly due to the acquisitions and debt changes.

Fiscal Year ended June 30, 2012:

Days cash on hand increased as a result of the strong operating performance and investment returns. Net patient accounts receivable increased primarily as a result of the physician practice acquisitions. Other receivables increased due to the accrual of the Meaningful Use amounts earned at June 30, 2012. Accounts payable and accrued expenses increased primarily due to having a pay period end on June 30, 2012. Net assets was negatively impacted by an increase in pension liabilities as a result of the continued low interest rate environment. Debt to capitalization and debt service coverage ratios both improved as a result of the strong operating performance.

Fiscal Year ended June 30, 2013:

Days cash on hand increased primarily as a result of strong investment valuations, receipt of Meaningful Use funds, and net borrowings. The net borrowings consist of (a) \$12.5 million taxable bank loan for the Epic implementation (fully drawn), (b) \$42.5 million of tax exempt lease for the Epic implementation (\$16.2 million drawn thus far), (c) \$10 million lease line of credit (\$5.2 million drawn thus far), less (d) regular debt and capital lease payments of \$14.5 million. Other receivables decreased due to the receipt of the Meaningful Use amounts earned and accrued at June 30, 2012. The debt to capitalization ratio improved slightly due to the increase in net assets outweighing the impact of the net borrowings. The debt service coverage ratio dropped slightly due to the net borrowings.

Fiscal Year ended June 30, 2014:

The significant changes in the balance sheet were (a) expenditures for the Epic electronic health record project of \$60.2 million and draws on the financing thereof of \$26.7 million, (b) the acquisition of Wexford House of \$13.5 million (\$5.8 million land, buildings and equipment and \$7.7 million goodwill), (c) the acquisition of the remaining 25% of Holston Valley Imaging Center of \$7.9 million (all goodwill), (d) the associated conversion of Holston Valley Imaging Center from the equity method to consolidation which resulted in an increase in goodwill of \$21.5 million, (e) the impairment of Lee Regional Medical Center of \$22.5 million (\$21.7 million buildings and equipment and \$0.8 million goodwill) and (f) the sale of Wellmont Health System's 60% interest in Takoma Regional Hospital of \$11.7 million as of July 1, 2014 (the cash was received on June 30, 2014 and is in other current liabilities). In addition, the 2003, 2005 and 2010 series of debt were refinanced in June with new direct placement tax-exempt debt.

Days cash on hand increased as a result of the above activity and appreciation of the investment portfolio. The debt to capitalization ratio improved slightly. The debt service coverage ratio decreased due to income available for debt service being \$17.8 million lower and MADS being \$1.5 million higher.

Fiscal Year ended June 30, 2015:

The only significant changes in the balance sheet were the sale of Wellmont Health System's 60% interest in Takoma Regional Hospital of \$11.7 million as of July 1, 2014 (the cash was received on June 30, 2014 and was in other current liabilities). In addition, a portion of the

Series 2006C debt was advance refunded in September with new direct placement tax-exempt debt.

Cash on hand decreased by 2 days and the debt to capitalization ratio and debt service coverage ratio both improved slightly.

Attachments:

- Attachment A - 2011 Bonds Official Statement for 2011 bonds
- Attachment B - Audits – External audited financial statements for 2011 to 2014
- Attachment C - EMMA – Annual Disclosures for 2011 to 2015 and Material Event Disclosures
- Attachment D - External Auditor Management Letters for 2011 to 2014
- Attachment E- Rating Agencies – Fitch and Standard & Poors Reports