North Carolina Department of Health and Human Services
Division of Health Service Regulation

Pat McCrory
Governor

Aldona Z. Wos, M.D.
Ambassador (Ret.)
Secretary DHHS

Drexdal Pratt
Division Director

March 4, 2014

Brad H. Weisner - COO
Nash Health Care Systems
2460 Curtis Ellis Drive
Rocky Mount, NC 27804

Exempt from Review

Facility:	Nash Hospitals, Inc
Project Description:	Women's Center Replacement
County:	Nash
FID #:	933368

Dear Mr. Weisner:

In response to your letters of September 6, 2013, January 15, 2014 and March 4, 2014, the above referenced proposal is exempt from certificate of need review in accordance with N.C.G.S 131E-184(g). Therefore, you may proceed to offer, develop or establish the above referenced project without a certificate of need.

However, you need to contact the Construction and Acute and Home Care Licensure and Certification Sections of the Division of Health Service Regulation to determine if they have any requirements for development of the proposed project.

It should be noted that this determination is binding only for the facts represented by you. Consequently, if changes are made in the project or in the facts provided in your correspondence referenced above, a new determination as to whether a certificate of need is required would need to be made by the Certificate of Need Section. Changes in a project include, but are not limited to: (1) increases in the capital cost; (2) acquisition of medical equipment not included in the original cost estimate; (3) modifications in the design of the project; (4) change in location; and (5) any increase in the number of square feet to be constructed.

If you have any questions concerning this matter, please feel free to contact this office.

Sincerely,

Bernetta Thorne-Williams

Bernetta Thorne-Williams
Project Analyst

Martha J. Frisone

Martha J. Frisone, Interim Chief
Certificate of Need Section

cc: Construction Section, DHSR
Acute and Home Care Licensure and Certification Section, DHSR

Williams, Bernetta

From: Weisner, Brad H. [bhweisner@NHCS.ORG]
Sent: Tuesday, March 04, 2014 11:16 AM
To: Williams, Bernetta
Subject: Women's Center Request

Ms Williams:

Per your request I am writing to document that Nash Hospital's Administrative and Financial Offices and Staff are located at Nash General Hospital or 2460 Curtis Ellis Drive.

Thank you for your assistance with this request and feel free to contact me if you need additional information.

Brad H. Weisner
Nash Hospitals, Inc - COO

Nash Health Care Systems
2460 Curtis Ellis Dr., Rocky Mount, NC 27804 • 252 443-8000 • Fax 252 443-8877

Bernetta

Received by the CON Section
JAN 23 2014

January 15, 2014

Bernetta Thorne-Williams, Project Analyst
Certificate of Need Section
2704 Mail Service Center
Raleigh, NC 27699-27804

Facility:	Nash Hospitals, Inc.
Project Description:	Women's Center Replacement
County:	Nash
FID#:	933368

Re. Information Request for Exemption Pursuant to G.S. 131E-184(g)

Dear Ms Thorne-Williams:

I am writing in response to your letter dated December 19, 2013 related to a request for information on the Women's Center Replacement. Below are my written responses to the 12 questions you stated:

1. *A copy of the health service facility's current license.*

Response: See attachment 1

2. *The street address of the site of the proposed renovations or construction.*

Response: 2460 Curtis Ellis Drive, same as Nash General Hospital

3. *If the site of the proposed renovations or construction consists of multiple buildings, identify which of those buildings, by name and number, is the main building.*

Response: The Women's Center new construction will be part of Nash General Hospital, 2460 Curtis Ellis Drive, which is the main building. It will be built on the site of the current Emergency Department which will be demolitioned after the ED relocates into their new building the 1st quarter 2014.

4. *If the site of the proposed renovations or construction is not the main building, provide the name and number of the building(s) to be renovated or constructed.*

   Response: Not applicable, construction is part of main building, see number 3.

5. *A site plan drawn to scale identifying the main building and the site of the proposed renovations or construction.*

   Response: See attachment 2.

6. *If the site of the proposed renovations or construction is not strictly contiguous to the main building, documentation that it is located within 250 yards of the main building.*

   Response: Construction is contiguous to main building. See attachment 2.

7. *Design schematics drawn to scale showing:*
   a. *Each area to be renovated; and*
   b. *Each area of new construction that replaces existing space,*

   Response: See Attachment 3, which includes schematic floor plans for the first and second floor that will be the Women's Center.

8. *Documentation that clinical patient services are provided at the site of the proposed renovations or construction.*

   Response: The proposed Women's Center is a replacement for the current services available at Nash General Hospital. The current services are located on 2^{nd} Floor of Nash General and occupy the same space that were built when Nash General opened in 1971. Several modifications have taken place since 1971 which include changing labor rooms to LDR rooms, adding a C-Section room and modifications to nursery for Level II and III nursery beds. The current floor layout does not lend itself to being renovated or provide enough square footage to accommodate the needs.

   The new Women's Center is being designed to provide a separate entrance for OB services with greater security. The new Center will provide larger LDR rooms to accommodate new technology and provide restrooms with showers in each LDR room. The new C-Section room will also be larger and bring the room up to current codes and needs for that service.

Nash has also converted to a Mother/Baby Model of patient care which entails the baby rooming in with the mother. This requires larger patient rooms to accommodate the bassinet and family members. The current patient rooms are the same size as built in 1971 and do not have showers or bathing capability in each patient room.

The new Nursery will provide new space for our current Level II and Level III nursery beds. In order to provide greater family access and infection prevention nursery will be separate rooms instead of a open area with curtain dividers.

9. *Documentation that <u>financial control of the entire licensed health service facility</u> is exercised at the site of the proposed renovations or construction.*

   Response: See attachment 4, which is an Operating Agreement between Nash County and Nash Health Care Systems, the hospital authority which owns 100% of Nash Hospitals, Inc. This operating agreement expires December 31, 2046.

10. *Documentation that <u>administrative control of the entire licensed health services facility</u> is exercised at the site of the proposed renovations or construction.*

   Response: See attachment 4, which is an Operating Agreement between Nash County and Nash Health Care Systems, the hospital authority which owns 100% of Nash Hospitals, Inc. This operating agreement expires December 31, 2046. Article I covers the operation and maintenance of facilities.

11. *Documentation that the <u>sole purpose of the project is to:</u>*
    a. *Renovate existing space;*

   Response: The location of the new Women's Center will be constructed on the site of the current Emergency Department, which will relocate to new facility in March 2014. The current ED building will be demoed. The only structure that will be renovated is the current stand alone Mechanical building for the current ED that will serve the same purpose for the new Women's Center with updating or replacement of some of the equipment.

    b. *Replace existing services on the same site; or*

   Response: The new construction will replace the following current services now offered at Nash General Hospital. Services being replaced are OB triage rooms, LDR rooms, 1 C-Section room, 16 post partum (currently licensed acute care beds) and 12 Level II and III nursery beds (currently licensed acute care beds)

c. *Expand the physical plant without adding any new services or major medical equipment.*

Response: The new plant addition will only accommodate the replacement of the current OB Services without adding any new service or major medical equipment.

12. *Documentation that the project will NOT result in:*
    a. *The offering of health services not currently provided;*

Response: The proposed project does not provide any new service, only current services in a more modern and patient friendly environment.

b. *The acquisition of additional units of major medical equipment; or*

Response: No additional units of major medical equipment will be added.

c. *An increase in the number of beds, operating rooms, gastrointestinal endoscopy rooms, etc*

Response: There will be no increase in the number of beds, operating rooms, endoscopy rooms, or any other CON regulated equipment or service.

I hope I have prepared all the additional information you requested, if not let me know.

Sincerely,

Brad Weisner

Brad H. Weisner
Nash Hospitals, Inc
COO

ATTACHMENT 1

State of North Carolina

Department of Health and Human Services
Division of Health Service Regulation

Effective January 01, 2014, this license is issued to

Nash Hospitals, Inc.

to operate a hospital known as

Nash General Hospital

located in Rocky Mount, North Carolina, Nash County.

This license is issued subject to the statutes of the State of North Carolina, is not transferable and shall remain in effect until amended by the issuing agency.

Facility ID: 933368

License Number: H0228

Bed Capacity: *353*

General Acute 270, Rehabilitation 23 , Psych 44, Substance Abuse 16,

Dedicated Inpatient Surgical Operating Rooms: 1
Dedicated Ambulatory Surgical Operating Rooms: 0
Shared Surgical Operating Rooms: 13
Dedicated Endoscopy Rooms: 4

Authorized by:

Secretary, N.C. Department of Health and Human Services

Director, Division of Health Service Regulation

ATTACHMENT 4

AMENDED AND RESTATED OPERATING AGREEMENT

THIS AMENDED AND RESTATED OPERATING AGREEMENT, made and entered into as of the 1st day of January, 2012 (this "Restated Operating Agreement"), between THE COUNTY OF NASH, a political subdivision of the State of North Carolina (the "County"), and NASH HEALTH CARE SYSTEMS, a hospital authority which is a public body and body corporate and politic of the State of North Carolina (the "Operator");

WITNESSETH THAT:

WHEREAS, the County is the owner of Nash General Hospital and Nash Day Hospital, located on the County's real property described on Exhibit A attached hereto ("the County Land"), which have heretofore been operated by the Operator or its wholly owned non-profit subsidiary, Nash Hospitals, Inc. (formerly known as Nash General Hospital, Inc., and the survivor by merger with Nash Day Hospital, Inc.), under an Operating Agreement dated May 2, 1988, as amended on July 10, 1995, December 18, 1997, May 7, 2001 and December 10, 2002 (the "Operating Agreement As Amended"); and

WHEREAS, the Operator was created by the County under the provisions of Article 12 of Chapter 131 of the General Statutes of North Carolina (now revised and recodified as Part B, Article 2, Chapter 131E of the General Statutes) to construct, maintain and operate public hospital facilities for the inhabitants of Nash County, among other things; and

WHEREAS, notwithstanding the Operating Agreement As Amended has not expired, the Operator expects to issue additional bonds (the "Additional Bonds") authorized under and secured, pari passu with the Operator's outstanding Health Care Facilities Revenue Bonds, Series 2003 (the "Series 2003 Bonds"), by the Trust Agreement, dated as of January 1, 2003 (the "Trust Agreement"), between the Operator and U.S. Bank National Association, as successor trustee (the "Trustee"), for the purpose of financing substantial capital improvements in furtherance of its mission to construct, maintain and operate public hospital facilities for the inhabitants of Nash County, and the parties therefore wish to amend and restate the Operating Agreement As Amended to the end that the Operator will continue to operate the hospitals and otherwise fulfill its purposes as a hospital authority; and

WHEREAS, this Restated Operating Agreement amends and restates in its entirety the Operating Agreement As Amended;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration paid by each of the parties to the other, the receipt of which is hereby acknowledged, the County and the Operator hereby agree as follows:

ARTICLE I

OPERATION AND MAINTENANCE OF FACILITIES

Section 1.01. <u>Operation of Facilities</u>. During the Term of this Restated Operating Agreement as set forth in Section 5.01 hereof (the "Term"), the Operator agrees to operate Nash

General Hospital and Nash Day Hospital, and other health care facilities heretofore or hereafter caused to be built by the County or the Operator on the County Land (the "Facilities"), as public hospitals. The Operator agrees that it shall use, maintain and operate, or cause to be used, maintained and operated, the Facilities during the Term of this Restated Operating Agreement upon a revenue producing basis, consistent with the Operator's obligations imposed under this Restated Operating Agreement and its status as a public hospital authority created under the laws of the State of North Carolina for the care and treatment of hospital patients and other hospital and medical purposes, and for the welfare and benefit of the general public, upon reasonable rates and charges.

The Operator agrees that it will at all times use its best efforts to maintain and operate the Facilities to meet the standards and requirements and provide health care of such quality and in such manner as shall enable the Facilities to participate in, and provide services in connection with Medicare, Medicaid and other recognized health and hospital insurance programs, represents that the Facilities presently comply therewith and agrees that it will use its best efforts to keep the Facilities in compliance therewith. The Operator further covenants that in the operation and maintenance of the Facilities it will comply with Title VI of the Civil Rights Act enacted by the Congress of the United States and otherwise will comply with such applicable Federal and State laws prohibiting discrimination based on race, creed, color, sex or national origin.

Section 1.02. Maintenance of Facilities. Subject to the provisions of this Restated Operating Agreement, the Operator shall, at all times during the Term of this Restated Operating Agreement, keep and maintain the Facilities, both inside and outside, in a good state of repair and preservation, ordinary wear and tear, obsolescence in spite of repair and acts of God excepted. The Operator covenants that it will not permit, commit or suffer any waste of the whole or any part of the Facilities and shall not use or permit the use of the Facilities, or any part thereof, for any unlawful purpose or permit any nuisance to exist thereon. The Operator agrees that it shall provide all equipment, furnishings, supplies and other personal property required or convenient for the proper operation, repair and maintenance of the Facilities in an economical and efficient manner, consistent with standards of hospital operation and administration generally acceptable for comparable fully accredited hospitals in the State of North Carolina.

Section 1.03. Compliance with Laws, Etc. The Operator shall not use or occupy, or permit any use or occupancy of, the Facilities or any part thereof contrary to any applicable law, ordinance or governmental regulation now or hereafter in force. The Operator covenants and agrees that throughout the Term of this Restated Operating Agreement, it shall promptly comply with all applicable laws, ordinances, orders, rules, regulations and requirements of all Federal, state and municipal governments and appropriate departments, commissions, boards and officers thereof, whether or not requiring structural repairs or alterations to the Facilities or relating to the use and occupancy or manner of use of the Facilities. Nothing contained in this Section 1.03 shall require the Operator to comply with any of the aforementioned laws, ordinances, orders, rules, regulations and requirements so long as the validity thereof is contested in good faith and by appropriate legal proceedings. The Operator shall also observe and comply with the requirements respecting the Facilities of all policies of insurance at any time in force with respect to any of the buildings, improvements, machinery or equipment constituting a part of the Facilities.

Section 1.04. Annual Budgets; Audits. During the Term of this Restated Operating Agreement, the Operator agrees that it will cause an annual budget to be prepared and to furnish copies thereof to the County. In addition the Operator shall furnish the County with audited financial statements for each Fiscal Year and such other or additional audits or similar reports as may be required by law. The Operator further agrees that it will at all times make available to the County and duly authorized representatives, the books, records and accounts of the Operator.

Section 1.05. Payment of Lawful Charges. During the Term of this Restated Operating Agreement, the Operator shall pay or cause to be paid on behalf of the County all taxes and assessments or other municipal or governmental charges, if any, lawfully levied upon or in respect of the Facilities, or upon any part thereof , or upon any of its revenues, when the same shall become due.

ARTICLE II

FACILITIES IMPROVEMENTS

Section 2.01. Improvements Part of Facilities. During the Term of this Restated Operating Agreement, all improvements to the Facilities or any other improvements to the County Land acquired or constructed by the Operator shall become a part of the Facilities.

ARTICLE III

INSURANCE

Section 3.01. Insurance. During the Term of this Restated Operating Agreement, the Operator agrees that it will on behalf of itself and the County obtain, maintain and pay as Operating Expenses the premiums for insurance required with respect to the Facilities except to the extent that the County shall do so directly.

ARTICLE IV

DEFAULTS AND REMEDIES

Section 4.01. Events of Default. The following shall constitute events of default under this Restated Operating Agreement (each, an "Event of Default"):

(a) The Operator, or any replacement manager or operator or successor operator as provided for in Section 6.05 hereof, shall fail to perform, observe or comply with any of the terms, covenants, conditions or provisions contained in this Restated Operating Agreement binding upon the Operator, and any such failure shall continue for a period of thirty (30) days after written notice thereof shall have been given to the Operator or such replacement manager or operator or successor operator by the County, unless the County shall consent in writing to an extension of such 30-day period prior to its expiration; provided, however, if the failure stated in such notice cannot be corrected within such 30-day period, the County shall consent to one (1) extension of an additional sixty (60) days if corrective action is instituted within such 30-day period and diligently pursued until such failure is corrected; or

(b) The Operator, or any replacement manager or operator or successor operator as provided for in Section 6.05 hereof, shall actually abandon the Facilities or any substantial part thereof, or abandon the operation of the Facilities herein contemplated (each, an "Abandonment"), and such Abandonment shall continue for a period of eighteen (18) months after written notice thereof shall have been given to the Operator or replacement manager or operator or successor operator by the County; provided, however, that any such Abandonment shall not be an Event of Default if any replacement manager or operator or successor operator as provided for in Section 6.05 hereof has commenced operation of the Facilities in accordance with the terms and provisions of this Restated Operating Agreement within such 18-month period; it being understood that individual incidents of non-operation of the Facilities during any such 18-month period shall not constitute an Event of Default; or

(c) The Operator shall file a voluntary petition in bankruptcy, or shall be adjudged a bankrupt or insolvent, or shall file any petition or other pleading seeking any reorganization in bankruptcy, composition, readjustment, liquidation or similar relief for itself under any present or future law or regulation, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of it or of all or any substantial part of its assets, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due (each, an "Insolvency Event"), but any such Insolvency Event shall not be an Event of Default if (i) the Operator continues to operate, or causes there to be operated, the Facilities in accordance with the terms and provisions of this Restated Operating Agreement or (ii) any replacement manager or operator or successor operator as provided for in Section 6.05 hereof has commenced operation of the Facilities in accordance with the terms and provisions of this Restated Operating Agreement within eighteen (18) months after the occurrence of any such Insolvency Event; it being understood that individual incidents of non-operation of the Facilities during such 18-month period shall not constitute an Event of Default.

Section 4.02. Remedies Upon Default.

(a) Whenever any Event of Default shall have occurred and be continuing under Section 4.01(a) hereof, the County may bring an action at law or in equity that may be necessary or desirable to collect any amounts then due and thereafter to become due under this Restated Operating Agreement, or to enforce the performance or observance of any obligation, agreement or covenant in this Restated Operating Agreement on the part of the Operator or any replacement manager or operator or successor operator as provided for in Section 6.05 hereof, but the County shall not be entitled to terminate this Restated Operating

Agreement or otherwise take possession of the Facilities upon the occurrence and continuation of any Default under Section 4.01(a) hereof.

(b) Whenever any Event of Default shall have occurred and be continuing under Section 4.01(b) hereof, the County may (i) terminate this Restated Operating Agreement and retake possession of the Facilities and (ii) bring an action at law or in equity that may be necessary or desirable to collect any amounts then due and thereafter to become due under this Restated Operating Agreement, or to enforce the performance or observance of any obligation, agreement or covenant in this Restated Operating Agreement on the part of the Operator or any replacement manager or operator or successor operator as provided for in Section 6.05 hereof.

(c) Whenever any Event of Default shall have occurred and be continuing under Section 4.01(c) hereof, the County may (i) terminate this Restated Operating Agreement and retake possession of the Facilities and (ii) bring an action at law or in equity that may be necessary or desirable to collect any amounts then due and thereafter to become due under this Restated Operating Agreement, or to enforce the performance or observance of any obligation, agreement or covenant in this Restated Operating Agreement on the part of the Operator or any replacement manager or operator or successor operator as provided for in Section 6.05 hereof.

Section 4.03. Cumulative Remedies; No Waiver of Rights. The rights and remedies of the County specified in this Restated Operating Agreement shall be cumulative. No failure by the County to insist upon the strict performance of any term, covenant, condition or provision of this Restated Operating Agreement, or to exercise any right or remedy consequent upon a breach thereof, shall constitute a waiver of any such breach or of such term, covenant, condition or provision or a waiver or relinquishment for the future of the right to insist upon and to enforce strict compliance with all the terms, covenants, conditions and provisions of this Restated Operating Agreement, or of the right to exercise any such rights or remedies, if any breach by the Operator or any replacement manager or operator or successor operator be continued or repeated, or of the right to recover possession of the Facilities pursuant to Section 4.02(b) or 4.02(c) hereof. No term, covenant, condition or provision of this Restated Operating Agreement binding upon the Operator or any replacement manager or operator or successor operator and no breach thereof shall be waived, altered or modified, except by a written instrument executed by the County. No waiver of any breach shall affect or alter this Restated Operating Agreement, but every term, covenant, condition and provision of this Restated Operating Agreement shall continue in full force and effect with respect to any other then existing or subsequent breach hereof.

ARTICLE V

TERM AND EFFECT OF TERMINATION

Section 5.01. Term of Restated Operating Agreement. The Term of this Restated

Operating Agreement shall expire on December 31, 2046; provided, however, if any Series 2003 Bonds or Additional Bonds are Outstanding as of the date of termination, the Term shall be further extended until such time as the Series 2003 Bonds and any Additional Bonds are paid in full, but in no event shall the Term be extended beyond the later of (i) ten (10) years from the final maturity date of the Series 2003 Bonds, (ii) three (3) years from the final maturity date of any Additional Bonds and (iii) December 31, 2049 (the "Final Termination Date").

Section 5.02. Vacation of Facilities and Transfer Upon Termination. Upon termination of this Restated Operating Agreement, whether at the expiration of the Term, as such Term may be extended to the Final Termination Date in accordance with Section 5.01 hereof, or upon an Event of Default as provided for in Section 4.02(b) or 4.02(c) hereof, the Operator, or replacement manager or operator or successor operator as provided for in Section 6.05 hereof, shall vacate and surrender possession of the Facilities, and the County, or its designee, may reenter and take possession thereof. Further, the Operator shall forthwith transfer, deliver and convey to the County, without any consideration therefor, any and all moneys, properties and other assets of the Operator (exclusive of the Facilities), not otherwise necessary for the payment of all liabilities and obligations of the Operator, including the Series 2003 Bonds and any Additional Bonds then Outstanding. If after such re-entering and taking possession of the Facilities by the County, or its designee, and prior to the Final Termination Date, the County sells the Facilities, or any portion thereof, the County shall, to the extent permitted by law, promptly transfer to the Trustee from the available proceeds of any such sale for application in accordance with the terms and provisions of the Trust Agreement, including, without limitation, Section 805 of the Trust Agreement, an amount which shall not exceed the principal and interest due and owing to the date of payment from such proceeds on the Series 2003 Bonds and any Additional Bonds then Outstanding.

ARTICLE VI

MISCELLANEOUS

Section 6.01. Maintenance of Corporate Existence and Tax status. The Operator covenants and agrees that it will maintain its existence as a hospital authority under the laws of the State of North Carolina and its rights, powers, privileges and franchises, and will not amend its Articles of Incorporation without prior approval by the County. The Operator represents that (i) it is exempt from Federal income taxes pursuant to Section 115(1) of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) Nash Hospitals, Inc. is exempt from Federal income taxes pursuant to Section 115(1) of the Code. The Operator covenants and agrees that it will maintain its, and Nash Hospitals, Inc.'s, status as exempt from Federal income taxes and will promptly notify the County of any inquiry or proceeding which might adversely affect the tax-exempt status of either such organization.

Section 6.02. Operator Information. The Operator agrees that, whenever requested by the County, the Operator shall provide and certify, or cause to be provided and certified, such information concerning the Operator, its operations and finances and other matters as the County considers necessary to enable it to make any reports required by law or governmental regulations.

Section 6.03. Amendment of Restated Operating Agreement. This Restated Operating Agreement may be amended from time to time by a written agreement duly executed by the County and the Operator; provided, however, that nothing herein contained shall permit any amendment which abrogates or diminishes the obligations of the Operator to operate, maintain and keep insured the Facilities; and further provided that if any of the Series 2003 Bonds are Outstanding, any amendment of Article IV, Article V and Sections 6.03, 6.05, 6.15 and 6.16 hereof shall require the prior written consent of the Security Provider for the Series 2003 Bonds.

Section 6.04. Enforcement of Restated Operating Agreement. This Restated Operating Agreement and the rights, interests, powers, privileges and benefits accruing to or vested in the County under this Restated Operating Agreement may be protected and enforced.

Section 6.05. Assignment; Replacement Manager or Operator; Successor Operator.

(a)(i) Subject to compliance with subsection (c) of this Section 6.05, the Operator may, at any time, with the consent of the Security Provider if any Series 2003 Bonds are then Outstanding, assign its duties and obligations under this Restated Operating Agreement in whole to a successor operator or replacement manager so long as the successor operator or replacement manager becomes fully obligated under this Restated Operating Agreement and simultaneously therewith executes and delivers to the County and such Security Provider an appropriate instrument containing the agreement of such successor operator or replacement manager to assume the due and punctual performance and observance of all of the covenants and agreements set forth in this Restated Operating Agreement.

(ii) Subject to compliance with subsection (c) of this Section 6.05, the Operator shall, upon the occurrence of an Abandonment or an Insolvency Event, at the direction of the Security Provider if any Series 2003 Bonds are then Outstanding, assign its duties and obligations under this Restated Operating Agreement in whole to a successor operator or replacement manager, and in the event that the Operator fails to make any such assignment for any reason, such Security Provider shall have the sole right to select a successor operator or replacement manager, so long as the successor operator or replacement manager becomes fully obligated under this Restated Operating Agreement and simultaneously therewith executes and delivers to the County and such Security Provider an appropriate instrument containing the agreement of such successor operator or replacement manager to assume the due and punctual performance and observance of all of the covenants and agreements set forth in this Restated Operating Agreement.

(b)(i) Subject to compliance with subsection (c) of this Section 6.05, the Operator may, at any time, with the consent of the Security Provider if any Series 2003 Bonds are then Outstanding, assign its duties and obligations under this Restated Operating Agreement in part to a replacement manager or operator so long as (A) the replacement manager or operator becomes fully obligated under this Restated Operating Agreement for the performance and observance of the duties and obligations which shall have been assigned to it and simultaneously therewith executes and delivers to the County and such Security Provider an appropriate instrument containing the agreement of such replacement manager or operator to assume the due and punctual performance and observance of the duties and obligations which shall have been assigned to it and (B) the Operator is not otherwise relieved from its due and punctual performance and observance of all the covenants and agreements set forth in this Restated Operating Agreement.

(ii) Subject to compliance with subsection (c) of this Section 6.05, the Operator shall, upon the occurrence of an Abandonment or an Insolvency Event, at the direction of the Security Provider if any Series 2003 Bonds are then Outstanding, assign its duties and obligations under this Restated Operating Agreement in part to a replacement manager or operator, and in the event that the Operator fails to make any such assignment for any reason, such Security Provider shall have the sole right to select a replacement manager or operator to assume the performance and observance of the duties and obligations to be assumed by it, so long as (A) the replacement manager or operator becomes fully obligated under this Restated Operating Agreement for the performance and observance of the duties and obligations which shall have been assumed by it and simultaneously therewith executes and delivers to the County and such Security Provider an appropriate instrument containing the agreement of such replacement manager or operator to assume the due and punctual performance and observance of the duties and obligations which shall have been assumed by it and (B) the Operator is not otherwise relieved from its due and punctual performance and observance of all the covenants and agreements set forth in this Restated Operating Agreement.

(c) If all amounts due or to become due on any Outstanding Series 2003 Bonds and any Outstanding Additional Bonds have not been paid in full to the holders thereof, there shall be delivered to the Trustee an Opinion of Bond Counsel to the effect that the consummation of the transaction contemplated by Section 6.05(a) or 6.05(b) hereof would not adversely affect the exclusion from gross income of the interest on the Series 2003 Bonds and any Additional Bonds for purposes of federal income taxation.

Section 6.06. North Carolina Law Controlling. This Restated Operating Agreement shall be construed and enforced in accordance with the laws of the State of North Carolina.

Section 6.07. Consents and Approvals. Whenever the written consent or approval of the County or the Operator shall be required under the provisions of this Restated Operating Agreement, such consent or approval shall not be unreasonably withheld.

Section 6.08. Multiple Counterparts. This Restated Operating Agreement may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original constituting but one and the same instrument.

Section 6.09. Severability. If any one of the covenants, agreements, or provisions of this Restated Operating Agreement shall be determined by a court of competent jurisdiction to be invalid, the invalidity of such covenants, agreements and provisions shall in no way affect the validity or effectiveness of the remainder of this Restated Operating Agreement and this Restated Operating Agreement shall continue in force to the fullest extent permitted by law.

Section 6.10. Notices, Demands; Requests. All notices, demands and requests to be given or made hereunder to or by the Operator or the County shall be in writing and shall be deemed to be properly given or made if sent by registered or certified mail, postage prepaid, addressed as follows:

(a) As to the Operator

Nash Health Care Systems
2460 Curtis Ellis Drive
Rocky Mount, North Carolina 27804
Attention: Chairman

(b) As to the County

County of Nash
Claude Mayo, Jr. Administration Building
120 W. Washington Street, Suite 3072
Nashville, North Carolina 27856
Attention: County Manager

Any of such addresses may be changed at any time upon written notice of such change sent by registered or certified mail, postage prepaid, to the other party by the party effecting the change.

Section 6.11. Operator an Independent Contractor. It is understood and agreed that the Operator is an independent contractor and that none of the Commissioners, officers, employees or agents of the Operator are or shall be deemed thereby to be an officer, employee or agent of the County by reason of anything contained in this Restated Operating Agreement.

Section 6.12. Amendment and Restatement of Operating Agreement As Amended. It is understood and agreed that the Operating Agreement As Amended is hereby amended and restated in its entirety as of the date of execution and delivery of this Restated Operating Agreement (the "Effective Date").

Section 6.13. Consent to Collective Bargaining. Neither the Operator nor any of its subsidiaries or affiliates shall enter into any collective bargaining agreement with employees or groups of employees or representatives thereof without first obtaining the express written approval of the County.

Section 6.14. Consideration. For each year of the Term, the Operator shall pay to the County four and one-half percent (4½%) of the Operator's Net Income from its immediately preceding fiscal year. The Operator's Net Income will be its excess of revenue (exclusive of the revenue of Nash Health Care Foundation) over expenses[1] minus regularly scheduled principal payments on its bond indebtedness resulting from bonds issued and outstanding prior to the Effective Date. The payments will be payment in advance and will be made within thirty (30) days of the Operator's acceptance of its audited financial statements, but in no event later than May 2nd of each year.

Section 6.15. Successors and Assigns. All of the covenants, stipulations, obligations and agreements contained in this Restated Operating Agreement by or on behalf of or for the benefit of the Operator and the County shall bind or inure to the benefit of the successors or assigns of the Operator or the County and any officer, board, commission, authority, agency or instrumentality to whom or to which any power or duty affecting such covenants, stipulations, obligations and agreements shall be transferred by or in accordance with law.

Section 6.16. Third Party Beneficiary. While any Series 2003 Bonds are Outstanding, the Security Provider for the Series 2003 Bonds is hereby expressly recognized as a third-party beneficiary of the terms and provisions of this Restated Operating Agreement to the extent that this Restated Operating Agreement confers upon or gives or grants to such Security Provider any right, remedy or claim, and such Security Provider may exercise and enforce any such right, remedy or claim conferred, given or granted under this Restated Operating Agreement.

Section 6.17. Definitions. All capitalized terms used in this Restated Operating Agreement but not otherwise defined herein shall have the meanings given to them in the Trust Agreement, as supplemented from time to time.

IN WITNESS WHEREOF, the County has caused this Restated Operating Agreement to be executed in its name and behalf by the Chairman of its Board of Commissioners and its official seal to be affixed hereto and attested by the Clerk of its Board of Commissioners, and the Operator has caused this Restated Operating Agreement to be executed in its name and behalf by its Chairman and its corporate seal to be affixed hereto and attested by its Secretary, and caused this Restated Operating Agreement to be delivered on this 9th day of January, 2012.

[SIGNATURES ON FOLLOWING PAGE 11]

[1] Operator's "excess of revenue over expenses" is shown in the Consolidated Statements of Revenue and Expenses and Changes in Net Assets in its audited Consolidated Basic Financial Statements.

COUNTY OF NASH, NORTH CAROLINA

(SEAL)

By Billy Morgan
Chairman, Board of Commissioners

Attest:

Wayne Moore
Clerk, Board of Commissioners

NASH HEALTH CARE SYSTEMS

(SEAL)

By V. E. Bradford II
Chairman

Attest:

Rosa A. Brodie
Secretary

North Carolina Department of Health and Human Services
Division of Health Service Regulation

Pat McCrory
Governor

Aldona Z. Wos, M.D.
Ambassador (Ret.)
Secretary DHHS

Drexdal Pratt
Division Director

December 19, 2013

Brad H. Weisner - COO
Nash Health Care Systems
2460 Curtis Ellis Drive
Rocky Mount, NC 27804

Information Request for Exemption Pursuant to G.S. 131E-184(g)

Facility:	Nash Hospital
Project Description:	Women's Center Replacement
County:	Nash
FID #:	933368

Dear Mr. Weisner:

The Certificate of Need Section (CON Section) has received your letter dated September 6, 2013 regarding the above reference proposal. However, additional information is needed to determine if the project is exempt from review pursuant to G.S. 131E-184(g).

Provide a written response to each of the following.

1. A copy of the health service facility's current license.
2. The street address of the site of the proposed renovations or construction.
3. If the site of the proposed renovations or construction consists of multiple buildings, identify which of those buildings, by name and number, is the main building.
4. If the site of the proposed renovations or construction is not the main building, provide the name and number of the building(s) to be renovated or constructed.
5. A site plan drawn to scale identifying the main building and the site of the proposed renovations or construction.
6. If the site of the proposed renovations or construction is not strictly contiguous to the main building, documentation that it is located within 250 yards of the main building.
7. Design schematics drawn to scale showing:
   a. each area to be renovated; and
   b. each area of new construction that replaces existing space.

Certificate of Need Section
www.ncdhhs.gov
Telephone: 919-855-3873 • Fax: 919-733-8139
Location: Edgerton Building • 809 Ruggles Drive • Raleigh, NC 27603
Mailing Address: 2704 Mail Service Center •Raleigh, NC 27699-2704

8. Documentation that clinical patient services are provided at the site of the proposed renovations or construction.
9. Documentation that financial control of the entire licensed health service facility is exercised at the site of the proposed renovations or construction.
10. Documentation that administrative control of the entire licensed health service facility is exercised at the site of the proposed renovations or construction.
11. Documentation that the sole purpose of the project is to:
    a. Renovate existing space;
    b. Replace existing services on the same site; or
    c. Expand the physical plant without adding any new services or major medical equipment.
12. Documentation that the project will NOT result in:
    a. the offering of health services not currently provided;
    b. the acquisition of additional units of major medical equipment; or
    c. an increase in the number of beds, operating rooms, gastrointestinal endoscopy rooms, etc.

If you have any questions concerning this request, please do not hesitate to call me.

Sincerely,

Bernetta Thorne-Williams

Bernetta Thorne-Williams, Project Analyst
Certificate of Need Section

Nash Health Care Systems

2460 Curtis Ellis Dr., Rocky Mount, NC 27804 • 252 962-8000 • Fax 252 962-8877

September 6, 2013

Mr. Craig Smith, Chief
Certificate of Need Section
Division of Health Service Regulation
NC Department of Health and Human Services
2704 Mail Service Center
Raleigh, NC 27699-2704

RE: Nash Hospital Exemption from CON review letter: Women's Center Replacement Facility – FID# 933368 Nash County

Dear Mr. Smith:

I am writing to inform the CON Section of Nash Hospital's intent to replace an existing licensed health services facility. I believe this project is exempt from CON review based on the exemption provision in NC Gen. Statute 131E-184 subsection (g).

Subsection (g) outlines three conditions that must be met for any capital expenditure set forth in G.S. 131E-176(16). The three conditions that must be met with response are as follows:

(1) The sole purpose of the capital expenditure is to renovate, replace on the same site, or expand the entirely or a portion of an existing health service facility that is located on the main campus.

Response: The sole purpose of this project is to renovate and replace on the same site an existing health service on the main campus. The project will be a new Women's Center that will replace the current Labor and Delivery rooms, Nursery, licensed C-Section room and Mother/Baby (licensed post-partum) rooms currently located on 2nd floor of Nash

General Hospital. This replacement will be on the location of the current Emergency Department which will be demoed after the Emergency Department relocates to the new building currently being constructed. (See attachment 1, Site Plan)

This location meets the definition of main campus since it will be contiguous to and part of Nash General Hospital. Nash Hospitals, Inc. d/b/a Nash General Hospital is a North Carolina licensed health service facility, License Number H0228, Facility ID 933368. (See attachment 2, copy of license). Nash General Hospital comprises part of the main building from which clinical patient services are provided, including the women's services that are part of this exemption. As shown in the attached lease, (See attachment 3) Nash Health Care Systems, the parent of Nash Hospitals, Inc., leases the land and buildings from Nash County. The long-term lease demonstrates the hospital's administrative control over the entire facility. Financial control over the entire facility is demonstrated in the attached audited financial statements, (See attachment 4) which show revenue from the operations of the entire facility and capital expenditures for the entire facility flowing to and from Nash Health Care Systems and its subsidiaries, including Nash Hospitals, Inc.

(2) *The capital expenditure does not result in (i) a change in bed capacity as defined in G.S. 131E-176(5) or (ii) the addition of a health service facility or any other new institutional health service other than that allowed in G.S. 131E-176(16)b.*

Response: This project will not result in a change in bed capacity or addition of a health service. The beds being constructed will be a relocation and replacement of current licensed beds, with no change in capacity. This project is also not the addition of a new service since Nash General has been providing and licensed for this service. See response above. This project does not involve the development of any new institutional health service, including any major medical equipment or "per se" reviewable equipment or service, with the exception of the expenditure of capital in excess of $2 million, which is the sole basis of the exemption notice.

(3) *The licensed health service facility proposing to incur the capital expenditure shall provide prior written notice to the Department, along with supporting documentation to demonstrate that it meets the exemption criteria of this subsection.*

Response: Nash Hospitals, Inc is a licensed health service facility, as noted above. This project is currently in design stage and is scheduled to start construction in April 2014. So this letter with supporting documentation serves as providing Department with prior written notice. Nash Hospitals, Inc. has not incurred any capital expenditure for this project prior to the filing of this exemption notice.

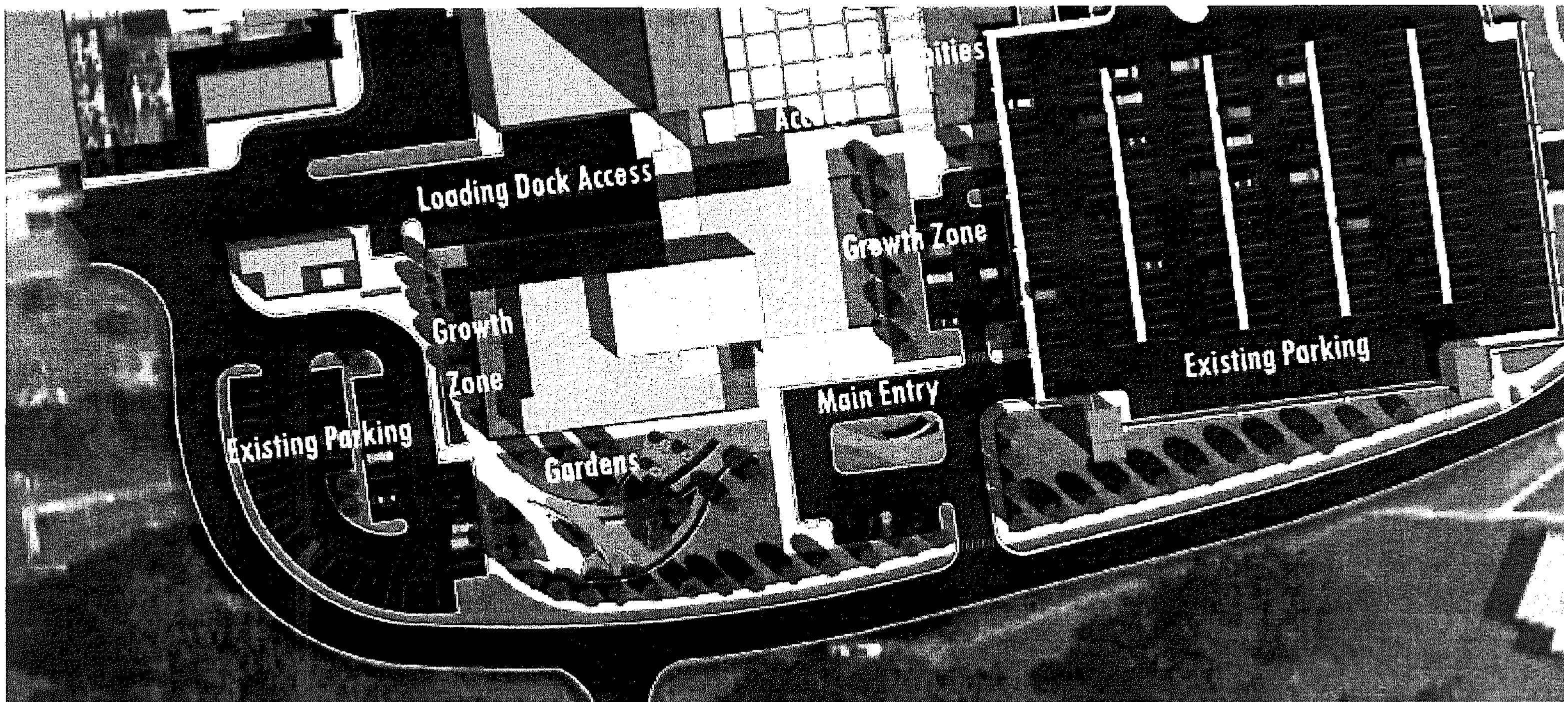
Thank you in advance for your review and confirmation of this request being exempt from review. If you should need any additional information I can be reached at 252 962-8227 or bhweisner@nhcs.org.

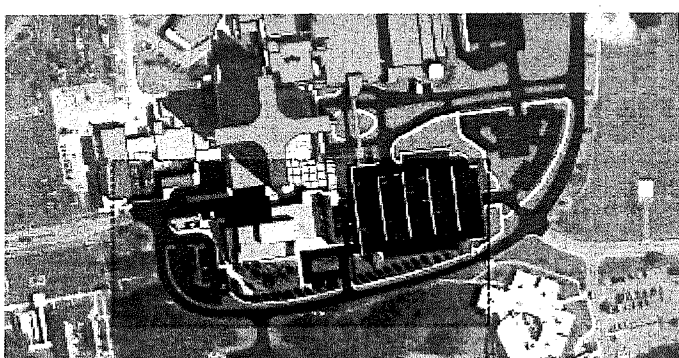
Sincerely,

Brad H. Weisner – COO
Nash Hospitals, Inc.

Attachment 1

Site Plans / Expandability Zones and Context





Attachment 2

State of North Carolina

Department of Health and Human Services
Division of Health Service Regulation

Effective January 01, 2013, this license is issued to

Nash Hospitals, Inc.

to operate a hospital known as

Nash General Hospital

located in Rocky Mount, North Carolina, Nash County.

This license is issued subject to the statutes of the State of North Carolina, is not transferable and shall remain in effect until amended by the issuing agency.

Facility ID: 933368

License Number: H0228

Bed Capacity: *353*

General Acute 270, Rehabilitation 23 , Psych 44, Substance Abuse 16,

Dedicated Inpatient Surgical Operating Rooms: 1
Dedicated Ambulatory Surgical Operating Rooms: 0
Shared Surgical Operating Rooms: 13
Dedicated Endoscopy Rooms: 4

Authorized by:

Acting Secretary, N.C. Department of Health and Human Services

THE GREAT SEAL OF THE STATE OF NORTH CAROLINA
MAY 20, 1775
APRIL 12, 1776
ESSE QUAM VIDERI

Director, Division of Health Service Regulation

Attachment 3

AMENDED AND RESTATED OPERATING AGREEMENT

THIS AMENDED AND RESTATED OPERATING AGREEMENT, made and entered into as of the 1st day of January, 2012 (this "Restated Operating Agreement"), between THE COUNTY OF NASH, a political subdivision of the State of North Carolina (the "County"), and NASH HEALTH CARE SYSTEMS, a hospital authority which is a public body and body corporate and politic of the State of North Carolina (the "Operator");

WITNESSETH THAT:

WHEREAS, the County is the owner of Nash General Hospital and Nash Day Hospital, located on the County's real property described on Exhibit A attached hereto ("the County Land"), which have heretofore been operated by the Operator or its wholly owned non-profit subsidiary, Nash Hospitals, Inc. (formerly known as Nash General Hospital, Inc., and the survivor by merger with Nash Day Hospital, Inc.), under an Operating Agreement dated May 2, 1988, as amended on July 10, 1995, December 18, 1997, May 7, 2001 and December 10, 2002 (the "Operating Agreement As Amended"); and

WHEREAS, the Operator was created by the County under the provisions of Article 12 of Chapter 131 of the General Statutes of North Carolina (now revised and recodified as Part B, Article 2, Chapter 131E of the General Statutes) to construct, maintain and operate public hospital facilities for the inhabitants of Nash County, among other things; and

WHEREAS, notwithstanding the Operating Agreement As Amended has not expired, the Operator expects to issue additional bonds (the "Additional Bonds") authorized under and secured, pari passu with the Operator's outstanding Health Care Facilities Revenue Bonds, Series 2003 (the "Series 2003 Bonds"), by the Trust Agreement, dated as of January 1, 2003 (the "Trust Agreement"), between the Operator and U.S. Bank National Association, as successor trustee (the "Trustee"), for the purpose of financing substantial capital improvements in furtherance of its mission to construct, maintain and operate public hospital facilities for the inhabitants of Nash County, and the parties therefore wish to amend and restate the Operating Agreement As Amended to the end that the Operator will continue to operate the hospitals and otherwise fulfill its purposes as a hospital authority; and

WHEREAS, this Restated Operating Agreement amends and restates in its entirety the Operating Agreement As Amended;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration paid by each of the parties to the other, the receipt of which is hereby acknowledged, the County and the Operator hereby agree as follows:

ARTICLE I

OPERATION AND MAINTENANCE OF FACILITIES

Section 1.01. <u>Operation of Facilities</u>. During the Term of this Restated Operating Agreement as set forth in Section 5.01 hereof (the "Term"), the Operator agrees to operate Nash

General Hospital and Nash Day Hospital, and other health care facilities heretofore or hereafter caused to be built by the County or the Operator on the County Land (the "Facilities"), as public hospitals. The Operator agrees that it shall use, maintain and operate, or cause to be used, maintained and operated, the Facilities during the Term of this Restated Operating Agreement upon a revenue producing basis, consistent with the Operator's obligations imposed under this Restated Operating Agreement and its status as a public hospital authority created under the laws of the State of North Carolina for the care and treatment of hospital patients and other hospital and medical purposes, and for the welfare and benefit of the general public, upon reasonable rates and charges.

The Operator agrees that it will at all times use its best efforts to maintain and operate the Facilities to meet the standards and requirements and provide health care of such quality and in such manner as shall enable the Facilities to participate in, and provide services in connection with Medicare, Medicaid and other recognized health and hospital insurance programs, represents that the Facilities presently comply therewith and agrees that it will use its best efforts to keep the Facilities in compliance therewith. The Operator further covenants that in the operation and maintenance of the Facilities it will comply with Title VI of the Civil Rights Act enacted by the Congress of the United States and otherwise will comply with such applicable Federal and State laws prohibiting discrimination based on race, creed, color, sex or national origin.

Section 1.02. Maintenance of Facilities. Subject to the provisions of this Restated Operating Agreement, the Operator shall, at all times during the Term of this Restated Operating Agreement, keep and maintain the Facilities, both inside and outside, in a good state of repair and preservation, ordinary wear and tear, obsolescence in spite of repair and acts of God excepted. The Operator covenants that it will not permit, commit or suffer any waste of the whole or any part of the Facilities and shall not use or permit the use of the Facilities, or any part thereof, for any unlawful purpose or permit any nuisance to exist thereon. The Operator agrees that it shall provide all equipment, furnishings, supplies and other personal property required or convenient for the proper operation, repair and maintenance of the Facilities in an economical and efficient manner, consistent with standards of hospital operation and administration generally acceptable for comparable fully accredited hospitals in the State of North Carolina.

Section 1.03. Compliance with Laws, Etc. The Operator shall not use or occupy, or permit any use or occupancy of, the Facilities or any part thereof contrary to any applicable law, ordinance or governmental regulation now or hereafter in force. The Operator covenants and agrees that throughout the Term of this Restated Operating Agreement, it shall promptly comply with all applicable laws, ordinances, orders, rules, regulations and requirements of all Federal, state and municipal governments and appropriate departments, commissions, boards and officers thereof, whether or not requiring structural repairs or alterations to the Facilities or relating to the use and occupancy or manner of use of the Facilities. Nothing contained in this Section 1.03 shall require the Operator to comply with any of the aforementioned laws, ordinances, orders, rules, regulations and requirements so long as the validity thereof is contested in good faith and by appropriate legal proceedings. The Operator shall also observe and comply with the requirements respecting the Facilities of all policies of insurance at any time in force with respect to any of the buildings, improvements, machinery or equipment constituting a part of the Facilities.

Section 1.04. Annual Budgets; Audits. During the Term of this Restated Operating Agreement, the Operator agrees that it will cause an annual budget to be prepared and to furnish copies thereof to the County. In addition the Operator shall furnish the County with audited financial statements for each Fiscal Year and such other or additional audits or similar reports as may be required by law. The Operator further agrees that it will at all times make available to the County and duly authorized representatives, the books, records and accounts of the Operator.

Section 1.05. Payment of Lawful Charges. During the Term of this Restated Operating Agreement, the Operator shall pay or cause to be paid on behalf of the County all taxes and assessments or other municipal or governmental charges, if any, lawfully levied upon or in respect of the Facilities, or upon any part thereof , or upon any of its revenues, when the same shall become due.

ARTICLE II

FACILITIES IMPROVEMENTS

Section 2.01. Improvements Part of Facilities. During the Term of this Restated Operating Agreement, all improvements to the Facilities or any other improvements to the County Land acquired or constructed by the Operator shall become a part of the Facilities.

ARTICLE III

INSURANCE

Section 3.01. Insurance. During the Term of this Restated Operating Agreement, the Operator agrees that it will on behalf of itself and the County obtain, maintain and pay as Operating Expenses the premiums for insurance required with respect to the Facilities except to the extent that the County shall do so directly.

ARTICLE IV

DEFAULTS AND REMEDIES

Section 4.01. Events of Default. The following shall constitute events of default under this Restated Operating Agreement (each, an "Event of Default"):

(a) The Operator, or any replacement manager or operator or successor operator as provided for in Section 6.05 hereof, shall fail to perform, observe or comply with any of the terms, covenants, conditions or provisions contained in this Restated Operating Agreement binding upon the Operator, and any such failure shall continue for a period of thirty (30) days after written notice thereof shall have been given to the Operator or such replacement manager or operator or successor operator by the County, unless the County shall consent in writing to an extension of such 30-day period prior to its expiration; provided, however, if the failure stated in such notice cannot be corrected within such 30-day period, the County shall consent to one (1) extension of an additional sixty (60) days if corrective action is instituted within such 30-day period and diligently pursued until such failure is corrected; or

(b) The Operator, or any replacement manager or operator or successor operator as provided for in Section 6.05 hereof, shall actually abandon the Facilities or any substantial part thereof, or abandon the operation of the Facilities herein contemplated (each, an "Abandonment"), and such Abandonment shall continue for a period of eighteen (18) months after written notice thereof shall have been given to the Operator or replacement manager or operator or successor operator by the County; provided, however, that any such Abandonment shall not be an Event of Default if any replacement manager or operator or successor operator as provided for in Section 6.05 hereof has commenced operation of the Facilities in accordance with the terms and provisions of this Restated Operating Agreement within such 18-month period; it being understood that individual incidents of non-operation of the Facilities during any such 18-month period shall not constitute an Event of Default; or

(c) The Operator shall file a voluntary petition in bankruptcy, or shall be adjudged a bankrupt or insolvent, or shall file any petition or other pleading seeking any reorganization in bankruptcy, composition, readjustment, liquidation or similar relief for itself under any present or future law or regulation, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver or liquidator of it or of all or any substantial part of its assets, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due (each, an "Insolvency Event"), but any such Insolvency Event shall not be an Event of Default if (i) the Operator continues to operate, or causes there to be operated, the Facilities in accordance with the terms and provisions of this Restated Operating Agreement or (ii) any replacement manager or operator or successor operator as provided for in Section 6.05 hereof has commenced operation of the Facilities in accordance with the terms and provisions of this Restated Operating Agreement within eighteen (18) months after the occurrence of any such Insolvency Event; it being understood that individual incidents of non-operation of the Facilities during such 18-month period shall not constitute an Event of Default.

Section 4.02. Remedies Upon Default.

(a) Whenever any Event of Default shall have occurred and be continuing under Section 4.01(a) hereof, the County may bring an action at law or in equity that may be necessary or desirable to collect any amounts then due and thereafter to become due under this Restated Operating Agreement, or to enforce the performance or observance of any obligation, agreement or covenant in this Restated Operating Agreement on the part of the Operator or any replacement manager or operator or successor operator as provided for in Section 6.05 hereof, but the County shall not be entitled to terminate this Restated Operating

Agreement or otherwise take possession of the Facilities upon the occurrence and continuation of any Default under Section 4.01(a) hereof.

(b) Whenever any Event of Default shall have occurred and be continuing under Section 4.01(b) hereof, the County may (i) terminate this Restated Operating Agreement and retake possession of the Facilities and (ii) bring an action at law or in equity that may be necessary or desirable to collect any amounts then due and thereafter to become due under this Restated Operating Agreement, or to enforce the performance or observance of any obligation, agreement or covenant in this Restated Operating Agreement on the part of the Operator or any replacement manager or operator or successor operator as provided for in Section 6.05 hereof.

(c) Whenever any Event of Default shall have occurred and be continuing under Section 4.01(c) hereof, the County may (i) terminate this Restated Operating Agreement and retake possession of the Facilities and (ii) bring an action at law or in equity that may be necessary or desirable to collect any amounts then due and thereafter to become due under this Restated Operating Agreement, or to enforce the performance or observance of any obligation, agreement or covenant in this Restated Operating Agreement on the part of the Operator or any replacement manager or operator or successor operator as provided for in Section 6.05 hereof.

Section 4.03. Cumulative Remedies; No Waiver of Rights. The rights and remedies of the County specified in this Restated Operating Agreement shall be cumulative. No failure by the County to insist upon the strict performance of any term, covenant, condition or provision of this Restated Operating Agreement, or to exercise any right or remedy consequent upon a breach thereof, shall constitute a waiver of any such breach or of such term, covenant, condition or provision or a waiver or relinquishment for the future of the right to insist upon and to enforce strict compliance with all the terms, covenants, conditions and provisions of this Restated Operating Agreement, or of the right to exercise any such rights or remedies, if any breach by the Operator or any replacement manager or operator or successor operator be continued or repeated, or of the right to recover possession of the Facilities pursuant to Section 4.02(b) or 4.02(c) hereof. No term, covenant, condition or provision of this Restated Operating Agreement binding upon the Operator or any replacement manager or operator or successor operator and no breach thereof shall be waived, altered or modified, except by a written instrument executed by the County. No waiver of any breach shall affect or alter this Restated Operating Agreement, but every term, covenant, condition and provision of this Restated Operating Agreement shall continue in full force and effect with respect to any other then existing or subsequent breach hereof.

ARTICLE V

TERM AND EFFECT OF TERMINATION

Section 5.01. Term of Restated Operating Agreement. The Term of this Restated

Operating Agreement shall expire on December 31, 2046; provided, however, if any Series 2003 Bonds or Additional Bonds are Outstanding as of the date of termination, the Term shall be further extended until such time as the Series 2003 Bonds and any Additional Bonds are paid in full, but in no event shall the Term be extended beyond the later of (i) ten (10) years from the final maturity date of the Series 2003 Bonds, (ii) three (3) years from the final maturity date of any Additional Bonds and (iii) December 31, 2049 (the "Final Termination Date").

Section 5.02. Vacation of Facilities and Transfer Upon Termination. Upon termination of this Restated Operating Agreement, whether at the expiration of the Term, as such Term may be extended to the Final Termination Date in accordance with Section 5.01 hereof, or upon an Event of Default as provided for in Section 4.02(b) or 4.02(c) hereof, the Operator, or replacement manager or operator or successor operator as provided for in Section 6.05 hereof, shall vacate and surrender possession of the Facilities, and the County, or its designee, may reenter and take possession thereof. Further, the Operator shall forthwith transfer, deliver and convey to the County, without any consideration therefor, any and all moneys, properties and other assets of the Operator (exclusive of the Facilities), not otherwise necessary for the payment of all liabilities and obligations of the Operator, including the Series 2003 Bonds and any Additional Bonds then Outstanding. If after such re-entering and taking possession of the Facilities by the County, or its designee, and prior to the Final Termination Date, the County sells the Facilities, or any portion thereof, the County shall, to the extent permitted by law, promptly transfer to the Trustee from the available proceeds of any such sale for application in accordance with the terms and provisions of the Trust Agreement, including, without limitation, Section 805 of the Trust Agreement, an amount which shall not exceed the principal and interest due and owing to the date of payment from such proceeds on the Series 2003 Bonds and any Additional Bonds then Outstanding.

ARTICLE VI

MISCELLANEOUS

Section 6.01. Maintenance of Corporate Existence and Tax status. The Operator covenants and agrees that it will maintain its existence as a hospital authority under the laws of the State of North Carolina and its rights, powers, privileges and franchises, and will not amend its Articles of Incorporation without prior approval by the County. The Operator represents that (i) it is exempt from Federal income taxes pursuant to Section 115(1) of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) Nash Hospitals, Inc. is exempt from Federal income taxes pursuant to Section 115(1) of the Code. The Operator covenants and agrees that it will maintain its, and Nash Hospitals, Inc.'s, status as exempt from Federal income taxes and will promptly notify the County of any inquiry or proceeding which might adversely affect the tax-exempt status of either such organization.

Section 6.02. Operator Information. The Operator agrees that, whenever requested by the County, the Operator shall provide and certify, or cause to be provided and certified, such information concerning the Operator, its operations and finances and other matters as the County considers necessary to enable it to make any reports required by law or governmental regulations.

Section 6.03. Amendment of Restated Operating Agreement. This Restated Operating Agreement may be amended from time to time by a written agreement duly executed by the County and the Operator; provided, however, that nothing herein contained shall permit any amendment which abrogates or diminishes the obligations of the Operator to operate, maintain and keep insured the Facilities; and further provided that if any of the Series 2003 Bonds are Outstanding, any amendment of Article IV, Article V and Sections 6.03, 6.05, 6.15 and 6.16 hereof shall require the prior written consent of the Security Provider for the Series 2003 Bonds.

Section 6.04. Enforcement of Restated Operating Agreement. This Restated Operating Agreement and the rights, interests, powers, privileges and benefits accruing to or vested in the County under this Restated Operating Agreement may be protected and enforced.

Section 6.05. Assignment; Replacement Manager or Operator; Successor Operator.

(a)(i) Subject to compliance with subsection (c) of this Section 6.05, the Operator may, at any time, with the consent of the Security Provider if any Series 2003 Bonds are then Outstanding, assign its duties and obligations under this Restated Operating Agreement in whole to a successor operator or replacement manager so long as the successor operator or replacement manager becomes fully obligated under this Restated Operating Agreement and simultaneously therewith executes and delivers to the County and such Security Provider an appropriate instrument containing the agreement of such successor operator or replacement manager to assume the due and punctual performance and observance of all of the covenants and agreements set forth in this Restated Operating Agreement.

(ii) Subject to compliance with subsection (c) of this Section 6.05, the Operator shall, upon the occurrence of an Abandonment or an Insolvency Event, at the direction of the Security Provider if any Series 2003 Bonds are then Outstanding, assign its duties and obligations under this Restated Operating Agreement in whole to a successor operator or replacement manager, and in the event that the Operator fails to make any such assignment for any reason, such Security Provider shall have the sole right to select a successor operator or replacement manager, so long as the successor operator or replacement manager becomes fully obligated under this Restated Operating Agreement and simultaneously therewith executes and delivers to the County and such Security Provider an appropriate instrument containing the agreement of such successor operator or replacement manager to assume the due and punctual performance and observance of all of the covenants and agreements set forth in this Restated Operating Agreement.

(b)(i) Subject to compliance with subsection (c) of this Section 6.05, the Operator may, at any time, with the consent of the Security Provider if any Series 2003 Bonds are then Outstanding, assign its duties and obligations under this Restated Operating Agreement in part to a replacement manager or operator so long as (A) the replacement manager or operator becomes fully obligated under this Restated Operating Agreement for the performance and observance of the duties and obligations which shall have been assigned to it and simultaneously therewith executes and delivers to the County and such Security Provider an appropriate instrument containing the agreement of such replacement manager or operator to assume the due and punctual performance and observance of the duties and obligations which shall have been assigned to it and (B) the Operator is not otherwise relieved from its due and punctual performance and observance of all the covenants and agreements set forth in this Restated Operating Agreement.

(ii) Subject to compliance with subsection (c) of this Section 6.05, the Operator shall, upon the occurrence of an Abandonment or an Insolvency Event, at the direction of the Security Provider if any Series 2003 Bonds are then Outstanding, assign its duties and obligations under this Restated Operating Agreement in part to a replacement manager or operator, and in the event that the Operator fails to make any such assignment for any reason, such Security Provider shall have the sole right to select a replacement manager or operator to assume the performance and observance of the duties and obligations to be assumed by it, so long as (A) the replacement manager or operator becomes fully obligated under this Restated Operating Agreement for the performance and observance of the duties and obligations which shall have been assumed by it and simultaneously therewith executes and delivers to the County and such Security Provider an appropriate instrument containing the agreement of such replacement manager or operator to assume the due and punctual performance and observance of the duties and obligations which shall have been assumed by it and (B) the Operator is not otherwise relieved from its due and punctual performance and observance of all the covenants and agreements set forth in this Restated Operating Agreement.

(c) If all amounts due or to become due on any Outstanding Series 2003 Bonds and any Outstanding Additional Bonds have not been paid in full to the holders thereof, there shall be delivered to the Trustee an Opinion of Bond Counsel to the effect that the consummation of the transaction contemplated by Section 6.05(a) or 6.05(b) hereof would not adversely affect the exclusion from gross income of the interest on the Series 2003 Bonds and any Additional Bonds for purposes of federal income taxation.

Section 6.06. North Carolina Law Controlling. This Restated Operating Agreement shall be construed and enforced in accordance with the laws of the State of North Carolina.

Section 6.07. Consents and Approvals. Whenever the written consent or approval of the County or the Operator shall be required under the provisions of this Restated Operating Agreement, such consent or approval shall not be unreasonably withheld.

Section 6.08. Multiple Counterparts. This Restated Operating Agreement may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original constituting but one and the same instrument.

Section 6.09. Severability. If any one of the covenants, agreements, or provisions of this Restated Operating Agreement shall be determined by a court of competent jurisdiction to be invalid, the invalidity of such covenants, agreements and provisions shall in no way affect the validity or effectiveness of the remainder of this Restated Operating Agreement and this Restated Operating Agreement shall continue in force to the fullest extent permitted by law.

Section 6.10. Notices, Demands; Requests. All notices, demands and requests to be given or made hereunder to or by the Operator or the County shall be in writing and shall be deemed to be properly given or made if sent by registered or certified mail, postage prepaid, addressed as follows:

(a) As to the Operator

Nash Health Care Systems
2460 Curtis Ellis Drive
Rocky Mount, North Carolina 27804
Attention: Chairman

(b) As to the County

County of Nash
Claude Mayo, Jr. Administration Building
120 W. Washington Street, Suite 3072
Nashville, North Carolina 27856
Attention: County Manager

Any of such addresses may be changed at any time upon written notice of such change sent by registered or certified mail, postage prepaid, to the other party by the party effecting the change.

Section 6.11. Operator an Independent Contractor. It is understood and agreed that the Operator is an independent contractor and that none of the Commissioners, officers, employees or agents of the Operator are or shall be deemed thereby to be an officer, employee or agent of the County by reason of anything contained in this Restated Operating Agreement.

Section 6.12. Amendment and Restatement of Operating Agreement As Amended. It is understood and agreed that the Operating Agreement As Amended is hereby amended and restated in its entirety as of the date of execution and delivery of this Restated Operating Agreement (the "Effective Date").

Section 6.13. Consent to Collective Bargaining. Neither the Operator nor any of its subsidiaries or affiliates shall enter into any collective bargaining agreement with employees or groups of employees or representatives thereof without first obtaining the express written approval of the County.

Section 6.14. Consideration. For each year of the Term, the Operator shall pay to the County four and one-half percent (4½%) of the Operator's Net Income from its immediately preceding fiscal year. The Operator's Net Income will be its excess of revenue (exclusive of the revenue of Nash Health Care Foundation) over expenses[1] minus regularly scheduled principal payments on its bond indebtedness resulting from bonds issued and outstanding prior to the Effective Date. The payments will be payment in advance and will be made within thirty (30) days of the Operator's acceptance of its audited financial statements, but in no event later than May 2nd of each year.

Section 6.15. Successors and Assigns. All of the covenants, stipulations, obligations and agreements contained in this Restated Operating Agreement by or on behalf of or for the benefit of the Operator and the County shall bind or inure to the benefit of the successors or assigns of the Operator or the County and any officer, board, commission, authority, agency or instrumentality to whom or to which any power or duty affecting such covenants, stipulations, obligations and agreements shall be transferred by or in accordance with law.

Section 6.16. Third Party Beneficiary. While any Series 2003 Bonds are Outstanding, the Security Provider for the Series 2003 Bonds is hereby expressly recognized as a third-party beneficiary of the terms and provisions of this Restated Operating Agreement to the extent that this Restated Operating Agreement confers upon or gives or grants to such Security Provider any right, remedy or claim, and such Security Provider may exercise and enforce any such right, remedy or claim conferred, given or granted under this Restated Operating Agreement.

Section 6.17. Definitions. All capitalized terms used in this Restated Operating Agreement but not otherwise defined herein shall have the meanings given to them in the Trust Agreement, as supplemented from time to time.

IN WITNESS WHEREOF, the County has caused this Restated Operating Agreement to be executed in its name and behalf by the Chairman of its Board of Commissioners and its official seal to be affixed hereto and attested by the Clerk of its Board of Commissioners, and the Operator has caused this Restated Operating Agreement to be executed in its name and behalf by its Chairman and its corporate seal to be affixed hereto and attested by its Secretary, and caused this Restated Operating Agreement to be delivered on this 9th day of January, 2012.

[SIGNATURES ON FOLLOWING PAGE 11]

[1] Operator's "excess of revenue over expenses" is shown in the Consolidated Statements of Revenue and Expenses and Changes in Net Assets in its audited Consolidated Basic Financial Statements.

COUNTY OF NASH, NORTH CAROLINA

(SEAL)

By ______________________
Chairman, Board of Commissioners

Attest:

____
Clerk, Board of Commissioners

NASH HEALTH CARE SYSTEMS

(SEAL)

By ______________________
Chairman

Attest:

____
Secretary

attachment
4

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED DECEMBER 31, 2012 AND 2011

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES
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YEARS ENDED DECEMBER 31, 2012 AND 2011

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Nash Health Care Systems and Subsidiaries
Rocky Mount, North Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Nash Health Care Systems and Subsidiaries ("Systems"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Systems' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Systems' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Systems as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating schedules are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 and the Schedule of Plan Funding Progress on page 39 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board ("GASB"), who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Charlotte, North Carolina
February 28, 2013

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012 AND 2011

OVERVIEW

The Management's Discussion and Analysis section of the Nash Health Care Systems and Subsidiaries consolidated financial report is designed to provide a general overview of the financial operating results for the fiscal years ended December 31, 2012 and 2011. This analysis should be read in conjunction with the basic consolidated financial statements and related notes which follow this analysis.

Nash Health Care Systems (the "Authority"), through a number of corporations it controls (the "Subsidiaries"), operates a health care delivery system headquartered in Rocky Mount, North Carolina, consisting of an acute care hospital, a physical rehabilitation hospital, a psychiatric hospital, outpatient facilities, a foundation, physician practices and medical office buildings (collectively, "Systems"). Systems operate the only acute care hospital in Rocky Mount, North Carolina.

The Authority was created in 1983 by Nash County, North Carolina, as a "public body and body corporate and politic" pursuant to Article 2 of Chapter 131E of the North Carolina General Statutes (formerly Article 12 of Chapter 131). The Subsidiaries are not-for-profit entities established under section 501(c)(3) of the Internal Revenue Code.

The consolidated System's basic financial statements include the financial results of Nash Health Care Systems, the parent organization, and all of its subsidiaries: Nash Hospitals, Inc. and Subsidiaries; Nash MSO, Inc.; Nash Medical Development Authority; Nash Community Health Services, Inc.; Nash Health Care Foundation; and NHCS Physicians, Inc.

USING THIS FINANCIAL REPORT

The basic consolidated financial statements have been prepared using the accrual basis of accounting, which accounts for all revenues and expenses when incurred, regardless of when cash is received or paid. The following financial statements are included in this financial report:

Consolidated Balance Sheets – Each balance sheet shows the financial position of Systems at a specific point in time. All assets (resources), deferred outflows of resources, liabilities (claims to resources), deferred inflows of resources, and net position (equity) are reported on the balance sheet. Each statement provides the basis for evaluation of Systems' capital structure, liquidity, and financial flexibility.

Consolidated Statements of Revenues, Expenses, and Changes in Net Position – Each statement shows the basis for Systems' changes in net position (profitability) for the entire fiscal year. For the years ended December 31, 2012 and 2011, Systems generated an increase in net position of $18,349,581 and $7,918,208, respectively.

Consolidated Statements of Cash Flows – Each statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. Each statement also provides insight into where cash came from, how it was used, and what the change in the cash balance was during the reporting period.

Notes to the Consolidated Financial Statements – Notes to the basic consolidated financial statements are designed to give the reader additional information concerning Systems and further supports the consolidated financial statements noted above.

CONDENSED CONSOLIDATED BALANCE SHEETS

The condensed consolidated balance sheets are as follows at December 31:

	2012	2011	2010
Current Assets	$ 138,689,901	$ 82,149,183	$ 78,703,314
Capital Assets - Net	130,780,825	123,250,275	119,431,797
Other Assets	181,756,181	151,567,790	148,233,464
Total Assets	$ 451,226,907	$ 356,967,248	$ 346,368,575
Current Liabilities	$ 41,920,285	$ 32,702,374	$ 28,251,967
Other Liabilities	112,793,398	46,101,231	47,871,173
Total Liabilities	154,713,683	78,803,605	76,123,140
Net Investment in Capital Assets	66,804,891	77,683,866	72,148,118
Restricted	1,743,833	795,363	148,172
Unrestricted	227,964,500	199,684,414	197,949,145
Total Net Position	296,513,224	278,163,643	270,245,435
Total Liabilities and Net Position	$ 451,226,907	$ 356,967,248	$ 346,368,575

CURRENT ASSETS

Current assets at December 31, 2012 increased $56.5 million or 68.8% compared to the prior year. Of the $56.5 million increase, cash and short-term investments increased by $6.1 million, reflecting cash generated from operations and the reimbursement of certain capital asset expenditures from the issuance of long-term debt. Patient accounts receivable decreased by $1.9 million related to shorter billing and collection times. Assets limited as to use increased $49.4 million due to undisbursed construction funds from the issuance of long-term debt.

Current assets at December 31, 2011 increased $3.4 million or 4.4% compared to the prior year. Of the $3.4 million increase, cash and short-term investments decreased by $5.7 million, reflecting cash invested in capital assets and a usage of cash due to an increase in patient accounts receivable. Patient accounts receivable increased by $9.4 million related to an increase in unbilled accounts and longer billing and collection times stemming from Systems' installation of a clinical electronic health record (the "Clinical EHR") in June 2011.

Systems' overall cash position is strong at 324 days at December 31, 2012 compared to 297 days at December 31, 2011, and a Standard and Poor's Not-for-Profit August 2011 ("S&P") "A" comparative (includes benchmark data through 2011) of 210 days. Days in patient accounts receivable have decreased to 52 days compared to 58 days in 2011. The S&P "A" comparative is 44 days.

CAPITAL ASSETS – NET

Capital assets increased by $7.5 million or 6.1% in 2012 and increased by $3.8 million or 3.2% in 2011 compared to 2010. See the Capital Assets section for further analysis of this balance sheet category.

OTHER ASSETS

Other assets increased by $30.2 million or 19.9% in 2012, compared to a $3.3 million increase or 2.2% between 2011 and 2010. The primary reason for the increase in 2012 is related to a $23.9 million increase in investments and assets designated by board resulting from market gains on Systems' marketable investments. Long-term prepaid expenses increased $5.0 million mostly due to increases in net other postemployment benefit and net pension assets.

Other assets increased by $3.3 million or 2.2% in 2011. The primary reason for the increase in 2011 is related to a $2.1 million increase in investments and assets designated by board resulting from market gains on Systems' marketable investments. Long-term prepaid expenses increased $1.1 million mostly due to increases in net other postemployment benefit and net pension assets.

Systems' investment policy outlines the investment objectives for the operating assets of Systems. The policy establishes portfolio allocations, investment guidelines, performance criteria, and investment manager responsibilities. Three portfolios are identified in the policy: a short-term portfolio, a funded depreciation portfolio, and an intermediate-term portfolio. The objectives of the short-term portfolio are principal preservation and avoiding erosion in real value due to inflation. The objectives of the funded depreciation and intermediate-term portfolios are principal preservation, avoiding erosion in real value, and, secondarily, growth in the value of the portfolio.

CURRENT LIABILITIES

Current liabilities increased $9.2 million or 28.2% at December 31, 2012 compared to December 31, 2011. The increase in 2012 is attributable to increases of approximately $3.8 million in third-party payor liabilities (mostly due to reserves relating to 2012 cost report estimates, the 2012 Medicaid Reimbursement Initiative (the "MRI Plan") and the 2012 GAP Plan and prior year Medicaid cost reports), approximately $2.5 million in accounts payable due to increases relating to capital asset purchases, and approximately $2.5 million in accrued expenses that are mostly payroll related.

Current liabilities increased $4.5 million or 15.8% at December 31, 2011 compared to December 31, 2010. The increase in 2011 is attributable to increases of approximately $1.3 million in third-party payor liabilities mostly due to reserves relating to the 2011 disproportionate share program, $1.9 million in accounts payable due to increases relating to capital asset purchases, and $1.1 million in accrued expenses that are mostly payroll related.

Current portion of long-term debt was approximately $2.0 million at December 31, 2012 and $1.5 million at December 31, 2011.

LONG-TERM DEBT

Effective January 31, 2003, Systems issued $55.0 million of variable rate health care facilities revenue bonds, Series 2003, which were re-issued as fixed rate bonds in May 2008. Such bonds are subject to mandatory redemption through 2030. The Series 2003 bonds are insured by the monoline bond insurer, Assured Guaranty. Mandatory payments of $1.5 million and $1.4 million were made in November 2012 and 2011, respectively.

Effective April 1, 2012, Systems issued $70.0 million of fixed rate health care facilities revenue bonds, Series 2012, which are subject to optional, extraordinary and mandatory sinking fund redemption prior to their maturity.

At December 31, 2012, total long-term debt was $112.7 million, of which $42.7 million and $70.0 million related Series 2003 and Series 2012, respectively. The portion of long-term debt classified as current for Series 2003 is $1.6 million and for Series 2012 is $365,000.

In 2009, Systems entered into a $1.7 million non-cancellable capital lease obligation for certain equipment related to an electronic health information system. At December 31, 2012, the capital lease obligation was $1.0 million, of which $239,000 is current.

NET POSITION

Net position totaled $296.5 million at December 31, 2012, an increase of $18.3 million or 6.6% compared to the prior year. Net investment in capital assets decreased by $10.9 million, reflecting bond proceeds issued for certain capital asset additions in 2012 and future years. Restricted net assets increased by approximately $948,000 as a result of increased contributions related to the capital campaign. Unrestricted net position increased by $28.3 million.

Net position totaled $278.2 million at December 31, 2011, an increase of $7.9 million or 2.9% compared to the prior year. Net investment in capital assets increased by $5.5 million, reflecting capital additions, net of depreciation expense in 2011. Restricted net position increased by $647,000. Unrestricted net position increased by $1.7 million.

CONDENSED CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The condensed consolidated statements of revenues, expenses, and changes in net position are as follows for the years ended December 31:

	2012	2011	2010
Net Patient Service Revenue	$ 211,317,215	$ 198,580,366	$ 202,960,383
Other	8,579,788	9,431,405	5,333,003
Total Revenue	219,897,003	208,011,771	208,293,386
Operating Expenses			
Personnel Expense	115,618,612	115,592,816	111,287,038
Supplies, Purchased Services, Depreciation and Other	98,009,723	83,952,444	78,928,532
Insurance	1,316,435	1,709,687	987,338
Interest	3,065,084	1,847,025	2,014,143
Total Operating Expenses	218,009,854	203,101,972	193,217,051
Income from Operations	1,887,149	4,909,799	15,076,335
Nonoperating Revenue			
Investment Income	15,513,436	2,339,121	13,513,580
Other	948,996	669,288	165,234
Total Nonoperating Revenue	16,462,432	3,008,409	13,678,814
Increase in Net Position	18,349,581	7,918,208	28,755,149
Net Position - Beginning of Year	278,163,643	270,245,435	241,490,286
Net Position - End of Year	$ 296,513,224	$ 278,163,643	$ 270,245,435

INCOME FROM OPERATIONS

Income from operations totaled $1.9 million in 2012, a decrease of $3.0 million from prior year income of $4.9 million. An operating profit margin of 0.7% was generated compared to 2.1% in 2011. The 2012 operating profit margin was lower than the S&P "A" comparative of 2.8%. Systems calculates its operating margin by excluding bad debts as a component of operating revenues in order to make meaningful comparisons to non-GASB hospitals. The decrease in income from operations in 2012 over 2011 was primarily due to a one-time asset impairment of $3.0 million related to the asset changes planned for 2013 and increases in supplies of $1.7 million, purchased services of $3.0 million, and interest expense of $1.2 million. These decreases in operating income were partially offset by an $11.9 million increase in total operating revenue.

NET PATIENT SERVICE REVENUE

Net patient service revenue increased $12.7 million or 6.4% in 2012 compared to 2011. Gross revenue grew by $72.4 million or 13.9%; however, revenue deductions grew at a faster rate and increased by $59.7 million or 18.6%. The $72.4 million increase in gross patient service revenue in 2012 was due to the implementation of a price increase averaging 10%, and an increase in admissions of 2.5% and patient days of 5.7%. The $59.7 million increase in revenue deductions in 2012 is due to several factors. Contractual allowances increased by $55.4 million. This increase is largely due to the rate increase of 10%. Uncompensated care, consisting of provision for uncollectible accounts and charity care, increased $4.3 million or 10% due to higher gross rates, an increase in self-pay payor mix and the continuing trend of higher co-pays and deductibles required by insurance companies and self-insured payors. Enhancements in the MRI Plan and the establishment of the GAP Plan in 2012 contributed to $8.8 million of the net patient service revenue increase.

Net patient service revenue decreased $4.4 million or 2.2% in 2011 compared to 2010. Gross revenue grew by $57.1 million or 12.3%; however, revenue deductions grew at a faster rate and increased by $61.5 million or 23.7%. The $57.1 million increase in gross patient service revenue in 2011 was almost entirely due to the implementation of a price increase averaging 12%, offset by lower admissions of 4.6% and patient days of 1.2%. The $61.5 million increase in revenue deductions in 2011 is due to several factors. Contractual allowances increased by $58.4 million. Excluding the prior year DSH settlement and change in DSH policy of $7.2 million, contractual allowances increased $51.2 million. This increase is largely due to the rate increase of 12%. Uncompensated care, consisting of provision for uncollectible accounts and charity care, increased $3.0 million or 7.6% due to higher gross rates, an increase in self-pay payor mix and the continuing trend of higher co-pays and deductibles required by insurance companies and self-insured payors.

OTHER REVENUE

Other revenue decreased by $0.9 million or 9% in 2012 from 2011 levels. The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The EHR incentive payments received in 2012 were $0.9 million less than the 2011 payments.

Other revenue increased 4.1 million or 76.8% in 2011 from 2010. The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. Systems demonstrated meaningful use to the 90-day period ended September 30, 2011, and received the first tentative incentive payments of $2.8 million and $1.2 million for Medicare and Medicaid, respectively, in December 2011. Of the $4.0 million received, $3.9 million is recognized as other operating revenue in the statement of revenues, expenses, and changes in net position.

PERSONNEL EXPENSE

Salaries increased $1.8 million or 2.0% in 2012. The number of full-time equivalent employees rose 0.2% in 2012. An average annual increase of approximately 1.5% was granted to employees. Benefits decreased $1.8 million compared to 2011 levels primarily due to a reduction in pension funding.

Salaries increased $4.7 million or 5.6% in 2011. The number of full-time equivalent employees rose 4% in 2011 resulting most from the implementation and post-conversion demands of the Clinical EHR. In addition, an average annual increase of approximately 1.5% was granted to employees.

SUPPLIES, PURCHASED SERVICES, DEPRECIATION, AND OTHER

Supplies, purchased services, depreciation, utilities, professional fees, and other expenses increased $14.1 million or 16.7% in 2012 compared to the prior year. Supplies expense increased by $1.7 million due to general inflationary increases in medical and surgical supplies and drug costs, and volume increases. Depreciation and amortization expense increased $1.1 million as a result of capital asset purchases during 2012 and a full year's depreciation on assets purchased in 2011. Purchased services increased $3.0 million due to an increase in maintenance contracts, collection fees, and other purchased services. Professional fees increased $1.4 million or 22.8% due to increased hospitalist coverage and new medical services fees. Other expenses increased by $7.1 million or 157.2% due to a one-time long-lived asset impairment charge of $3.0 million and assessments of $3.8 million paid in conjunction with the GAP Plan.

Supplies, purchased services, depreciation, utilities, professional fees, and other expenses increased $5.0 million or 6.4% in 2011 compared to the prior year. Supplies expense increased by $1.0 million due to general inflationary increases in medical and surgical supplies and drug costs. Depreciation and amortization expense increased $853,000 as a result of capital asset purchases during 2011 and a full year's depreciation on assets purchased in 2010. Purchased services increased $1.9 million mostly due to an increase in maintenance contracts and other purchased services related to the Clinical EHR implementation. Professional fees increased $2.0 million or 49.3% due to increased hospitalist coverage and new medical services fees. Other expenses decreased by $952,000 or 17.3% primarily due to a one-time capital impairment charge in 2010 of $793,000.

INSURANCE

Insurance expense decreased $393,000 or 23.0% in 2012 compared to 2011. Insurance expense in 2012 was lower than normal due to favorable actuarial results related to incurred but not reported ("IBNR") professional liability claims.

Insurance expense increased $722,000 or 73.2% in 2011 compared to 2010. Insurance expense in 2010 was lower than normal due to favorable actuarial results related to incurred but not reported ("IBNR") professional liability claims.

INTEREST EXPENSE

Interest expense of $3.1 million was incurred in 2012 compared to interest of $1.8 million in 2011. The increase of $1.2 million was due to additional interest expense of $2.4 million, a result of the issuance of the Series 2012 bonds, offset by an increase of $1.2 million in capitalization of interest expense.

Interest expense of $1.8 million was incurred in 2011 compared to interest of $2.0 million in 2010. The decrease was due to lower outstanding debt and a $108,000 increase in capitalization of interest expense.

INVESTMENT INCOME (LOSS)

Investment income totaled $15.5 million in 2012 compared to $2.3 million for 2011, an increase of $13.2 million. The overall investment return in 2012 was 8.2% compared to 1.4% in 2011. Of the $15.5 million in investment income, approximately $7.5 million was earned from fixed income investments, $7.2 million from equity investments and $0.8 million from alternative investments. Of the $15.5 million investment income for 2012, net realized gains were $5.9 million and unrealized gains were $9.6 million.

Investment income totaled $2.3 million in 2011 compared to $13.5 million for 2010, a decrease of $11.2 million. The overall investment return in 2011 was 1.4% compared to 7.8% in 2010. Of the $2.3 million in investment income, approximately $3.4 million was earned from fixed income investments and was offset by losses of $0.8 million and $0.2 million from equity investments and alternative investments, respectively. Of the $2.3 million investment income for 2011, net realized gains were $4.0 million and unrealized losses were $1.7 million.

CAPITAL ASSETS

Capital assets consisted of the following as of December 31:

	2012	2011	2010
Land	$ 4,582,596	$ 4,582,596	$ 4,589,712
Land Improvements	9,485,063	9,905,678	8,482,744
Buildings/Cap Int	111,908,208	109,854,255	105,597,170
Equipment	171,184,846	168,664,768	147,158,996
Capital Lease	1,674,000	1,674,000	1,674,000
Construction in Progress	24,985,433	4,442,954	12,280,245
Total Capital Assets	323,820,146	299,124,251	279,782,867
Less - Accumulated Depreciation	(190,019,071)	(175,873,976)	(159,558,070)
Less - Impairment	(3,020,250)	-	(793,000)
Total Capital Assets - Net	$ 130,780,825	$ 123,250,275	$ 119,431,797

CAPITAL ASSETS (CONTINUED)

As of December 31, 2012, Systems has invested approximately $130.8 million in capital assets, an increase of 6.1% compared to the prior year. Capital expenditures of $28.9 million incurred during 2012 included construction costs associated with a new Emergency Department and Heart Center, ongoing Clinical EHR enhancements; ongoing equipment replacement throughout the System; new equipment; various improvements to existing facilities; and other information technology purchases and upgrades.

ECONOMIC FACTORS

The following key economic indicators reflect the economic condition of Nash and Edgecombe Counties, the primary service area of Systems:

The unemployment rate for Nash and Edgecombe Counties was 11.2% and 15.0%, respectively, as of December 2012, compared to 11.4% and 15.7%, respectively, as of December 2011. The unemployment rate in Systems' primary market tends to run higher than the statewide unemployment rate, which was 9.2% as of December 2012.

In 2010, the U.S. government passed sweeping health care reform legislation. Additional risk factors from this legislation exist for Systems though the impact of these factors on Systems' operations and financial position is unknown as many of the key provisions of the legislation have yet to be finalized.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide users of the basic consolidated financial statements with a general overview of Systems' finances. If you have any questions about this report or need additional financial information, inquiries may be sent to:

C. Allen Hooks
Senior Vice President, Chief Financial Officer
Nash Health Care Systems
2460 Curtis Ellis Drive
Rocky Mount, North Carolina 27804

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and Cash Equivalents	$ 17,846,780	$ 4,560,931
Short-Term Investments	23,582,917	30,751,916
Assets Limited as to Use	49,366,030	-
Accounts Receivable		
Patient Services - Net of Allowance for Uncollectible Accounts of Approximately $23,127,000 in 2012 and $23,035,000 in 2011	34,608,637	36,532,647
Other	5,764,270	2,678,293
Inventories	4,160,847	4,134,490
Prepaid Expenses and Other	3,360,420	3,490,906
Total Current Assets	138,689,901	82,149,183
CAPITAL ASSETS - NET		
Land	4,582,596	4,582,596
Depreciable Assets - Net of Accumulated Depreciation	126,198,229	118,667,679
Total Capital Assets	130,780,825	123,250,275
LONG-TERM ASSETS		
Investments	77,011,576	61,377,919
Assets Designated by Board	81,208,137	72,972,705
Prepaid Expenses and Other	13,707,388	8,665,204
Other Deposits	6,659,651	6,156,887
Deferred Costs - Net of Accumulated Amortization of $1,256,000 in 2012 and $1,119,000 in 2011	2,213,822	1,547,998
Other	955,607	847,077
Total Long-Term Assets	181,756,181	151,567,790
Total Assets	$ 451,226,907	$ 356,967,248

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET POSITION	2012	2011
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 1,965,000	$ 1,500,000
Current Portion of Capital Lease Obligation	238,563	230,395
Accounts Payable	8,982,466	6,531,867
Due to Third-Party Payors	11,445,675	7,605,921
Accrued Expenses	19,288,581	16,834,191
Total Current Liabilities	41,920,285	32,702,374
LONG-TERM LIABILITIES		
Long-Term Debt	110,370,752	42,829,802
Capital Lease Obligation	767,649	1,006,212
Other Long-Term Liabilities	1,654,997	2,265,217
Total Long-Term Liabilities	112,793,398	46,101,231
Total Liabilities	154,713,683	78,803,605
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	66,804,891	77,683,866
Restricted	1,743,833	795,363
Unrestricted	227,964,500	199,684,414
Total Net Position	296,513,224	278,163,643
Total Liabilities and Net Position	$ 451,226,907	$ 356,967,248

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING REVENUE		
Net Patient Service Revenue (Less Provision for Uncollectible Accounts of $32,916,000 in 2012 and $29,640,000 in 2011)	$ 211,317,215	$ 198,580,366
Other	8,579,788	9,431,405
Total Operating Revenue	219,897,003	208,011,771
OPERATING EXPENSES		
Salaries	91,615,703	89,813,438
Employee Benefits	24,002,909	25,779,378
Materials and Supplies	35,659,316	33,979,813
Purchased Services	20,898,835	17,900,350
Depreciation	17,809,668	16,732,424
Utilities	4,494,720	4,723,842
Professional Fees	7,455,925	6,069,568
Insurance	1,316,435	1,709,687
Interest	3,065,084	1,847,025
Other	11,691,259	4,546,447
Total Operating Expenses	218,009,854	203,101,972
INCOME FROM OPERATIONS	1,887,149	4,909,799
NONOPERATING REVENUE - NET		
Investment Income	15,513,436	2,339,121
Contributions - Net	911,891	587,686
Other, Net	37,105	81,602
Total Nonoperating Revenue - Net	16,462,432	3,008,409
INCREASE IN NET POSITION	18,349,581	7,918,208
Net Position - Beginning of Year	278,163,643	270,245,435
NET POSITION - END OF YEAR	$ 296,513,224	$ 278,163,643

See accompanying Notes to Consolidated Financial Statements.

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Third-Party Payors and Patients	$ 217,080,979	$ 190,490,118
Payments to Suppliers	(55,338,245)	(51,038,742)
Payments to Employees	(113,688,162)	(114,936,615)
Other Receipts	5,493,811	10,030,689
Other Payments	(29,956,529)	(19,702,744)
Net Cash Provided by Operating Activities	23,591,854	14,842,706
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Unrestricted Contributions - Net	911,891	587,686
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	(27,230,472)	(19,571,633)
Proceeds from Disposal of Capital Assets	89,405	43,184
Cash Paid for Bond Issue Costs	(802,431)	(25,000)
Proceeds from Issuance of Series 2012 Bonds (Net of Discount)	69,582,870	-
Principal Payments Made on Long-Term Debt	(1,500,000)	(1,400,000)
Principal Payments Made on Capital Lease Obligation	(230,395)	(222,505)
Net Cash Provided by (Used in) Capital and Related Financial Activities	39,908,977	(21,175,954)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Restricted Deposits - Net	(315,263)	(247,576)
Additions to Long-Term Investments	(20,132,787)	(24,640,963)
Reductions in Long-Term Investments	5,620,237	20,831,212
Additions to Short-Term Investments	(32,646,001)	(27,625,975)
Reductions in Short-Term Investments	39,815,000	32,500,000
Additions to Assets Limited as to Use	(69,123,232)	-
Reductions in Assets Limited as to Use	19,757,202	-
Additions to Other Long-Term Assets	(108,530)	(33,877)
Receipts of Investment Income	5,969,396	4,073,355
Other Nonoperating Revenue and Expenses - Net	37,105	81,602
Net Cash Provided by (Used in) Investing Activities	(51,126,873)	4,937,778
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,285,849	(807,784)
Cash and Cash Equivalents - Beginning of Year	4,560,931	5,368,715
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 17,846,780	$ 4,560,931

See accompanying Notes to Consolidated Financial Statements.

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from Operations	$ 1,887,149	$ 4,909,799
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities:		
Provision for Uncollectible Accounts	32,916,369	29,639,989
Depreciation	17,809,668	16,732,424
Loss on Disposal of Capital Assets and Impairment Charges	3,529,125	(10,507)
Amortization of Deferred Costs	136,607	122,037
Amortization of Bond Premium and Capital Lease	(76,920)	(94,765)
Change in Operating Assets and Liabilities:		
Accounts Receivable	(34,078,336)	(38,449,641)
Inventories	(26,357)	(514,262)
Prepaid Expenses and Other Assets	(4,911,698)	(878,157)
Accounts Payable	722,323	908,223
Due to Third-Party Payors	3,839,754	1,318,688
Accrued Expenses	2,454,390	1,103,661
Other Long-Term Liabilities	(610,220)	55,217
Net Cash Provided by Operating Activities	$ 23,591,854	$ 14,842,706
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES:		
Capital Asset Additions in Accounts Payable	$ 4,421,097	$ 2,692,821
Net Unrealized Gain (Loss) on Investments	$ 9,597,057	$ (1,675,198)
Cash Paid for Interest	$ 3,999,000	$ 2,253,000

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 BASIS OF PRESENTATION

Organization

Nash Health Care Systems ("NHCS"), a non profit North Carolina hospital authority and a political subdivision of the state of North Carolina, is the parent organization to the following subsidiary corporations that it controls (the "Affiliates"): Nash Hospitals, Inc. and Subsidiaries ("NHI"); Nash Medical Development Authority ("NMDA"); Nash MSO, Inc. ("MSO"); Nash Community Health Services, Inc. ("Community"); Nash Health Care Foundation (the "Foundation"); and NHCS Physicians, Inc. ("Physicians") (collectively, "Systems"). Physicians was incorporated in 2005 as a wholly-owned subsidiary of NHCS. Physicians has had no activity since inception. NHI is the parent organization to Nash Imaging, LLC ("Imaging") and Sycamore Square Investments, LLC ("Sycamore").

Under the terms of the Trust Agreement associated with Systems' long-term debt (see Note 9), NHCS is the only party directly obligated to pay debt service on the Series 2003 and 2012 Bonds. However, certain Affiliates of the NHCS, including NHI, NMDA, Community, MSO and the Foundation (collectively, the "Restricted Affiliates") are obligated with NHCS to pay debt service on all bonds issued under the Trust Agreement and to comply with the terms and provisions of the Trust Agreement applicable to them. NHCS controls each of the Restricted Affiliates through its rights as the sole member, which rights include the right to appoint and remove the members of the Board of Directors of the Restricted Affiliates. The Affiliates of NHCS that are not designated as Restricted Affiliates are Imaging, Sycamore and Physicians (collectively, the "Non-Restricted Affiliates").

Systems' financial data is incorporated into the comprehensive annual financial report of Nash County (the "County") as a component unit and is an integral part of the County's financial statements.

Basis of Presentation

The accompanying basic consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") in accordance with the American Institute of Certified Public Accountants' audit and accounting guide, *Health Care Entities*, and other pronouncements applicable to health care organizations and guidance from the Governmental Accounting Standards Board (GASB), where applicable. The basic consolidated financial statements include all of the accounts of Systems. Intercompany accounts and transactions have been eliminated in consolidation.

Due to its relationship with the County, Systems is subject to the application of accounting pronouncements issued by the GASB. In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board Statements and other pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement became effective for Systems' fiscal year ended December 31, 2012.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of Systems are summarized below:

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant accounting estimates include determining and maintaining the adequacy of the allowance for uncollectible accounts receivable; estimates regarding final settlements related to Medicare and Medicaid cost reports and Systems' participation in the MRI Plan and GAP Plan (defined below); and estimates regarding Systems' liabilities associated with professional medical malpractice and workers' compensation insurance programs and its self-insured medical benefits program. Actual results could differ from those estimates.

Cash Equivalents

Cash equivalents consist of cash on hand, checking account deposits, and investments in highly liquid financial instruments with an original maturity of three months or less.

Assets Limited as to Use

Assets limited as to use include assets held by trustee under long-term debt indentures to be used for future capital asset purchases.

Investments

Marketable equity and debt securities are recorded at their fair value with gains and losses in fair value reflected as a component of nonoperating revenue in the accompanying consolidated statements of revenues, expenses, and changes in net position.

Alternative investments are investments in the common stock of limited liability investment companies that offer a pattern of returns different from that of the overall market and occasionally have lesser levels of liquidity. Examples of alternative investments include non-publicly traded companies, real estate and hedge funds.

Inventories

Inventories consist primarily of patient-care supplies and are carried at average cost or market.

Designated Assets

Systems' Board of Commissioners (the "Board") has designated certain funds to be held for property and equipment replacement and expansion.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Net

Capital assets are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as shown below:

Land Improvements	5 - 40 years
Buildings	20 - 40 years
Equipment (including software)	3 - 20 years

Title to NHI's property and certain equipment (collectively, the "Facilities") is held by the County, and the Facilities are managed and operated by NHI under operating agreements with Systems. The agreements will continue as long as the terms of the agreements are met. Upon termination of the agreements, all monies, properties, and other assets of NHI will be delivered and conveyed to the County.

NHI has the benefits and risks of ownership of the Facilities, and in the opinion of management, termination of the agreements is not probable; therefore, the assets owned by the County and operated by NHI have been reflected in these accompanying basic consolidated financial statements.

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction is capitalized as a component of the cost of acquiring those assets. During 2012 and 2011, Systems capitalized approximately $1,508,000 and $428,000, respectively, of interest costs.

Systems reviews long-lived assets and certain identifiable intangibles for impairment and adjusts the carrying amount down to fair value whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In 2012, Systems recorded asset impairments totaling approximately $3,020,000 related to certain assets whose estimated useful lives have been shortened. No impairments were recorded in 2011.

Deferred Costs

Financing costs associated with Systems' debt offerings have been capitalized and are being amortized over the life of the long-term debt under the effective interest method.

Net Position

In accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* net position is categorized as net investment in capital assets, restricted and unrestricted. Net investment in capital assets is intended to reflect the portion of net position that is associated with nonliquid capital assets less outstanding capital-related debt. Restricted net position is assets generated from revenues that have third-party limitations as to their use. Unrestricted net position has no third-party restrictions as to use.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statements of Revenues, Expenses, and Changes in Net Position

All revenues and expenses directly related to delivery of health care services are included in operating revenues and expenses in the accompanying consolidated statements of revenues, expenses, and changes in net position. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or investment income.

Net Patient Service Revenue

Patient service revenue (excluding the effects of charity care) is recorded at NHI, MSO and Imaging's established rates with contractual adjustments and provisions for uncollectible accounts deducted to arrive at net patient service revenue.

Contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in the future as final settlements are determined.

Components of net patient service revenue for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Gross Patient Service Revenue	$ 591,853,774	$ 519,448,994
Less:		
Contractual Adjustments	(333,459,042)	(278,081,815)
Charity Care	(14,161,148)	(13,146,824)
Provision for Uncollectible Accounts	(32,916,369)	(29,639,989)
Net Patient Service Revenue	$ 211,317,215	$ 198,580,366

Medicare and Medicaid Programs

NHI, MSO and Imaging have agreements with third-party payors that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between NHI, MSO and Imaging's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare – Inpatient general acute care services, inpatient psychiatric services, inpatient behavioral health services, and inpatient rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicare beneficiaries are paid at prospectively determined rates per visit. NHI is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by NHI and audits by the Medicare fiscal intermediary.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Medicare and Medicaid Programs (Continued)

Medicaid – Inpatient general acute services are reimbursed at prospectively determined rates per discharge. Inpatient psychiatric services and behavioral health services are reimbursed at an all-inclusive per diem rate. The prospectively determined per diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost-reimbursement methodology. NHI is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by NHI and audits by the fiscal intermediary.

Systems files cost reports with the Medicare and Medicaid programs that can result in amounts payable or receivable from the programs. Systems' Medicare and Medicaid cost reports have been audited by the fiscal intermediary through December 31, 2007. Retroactive adjustments relating to prior-year Medicare and Medicaid cost reports, (exclusive of settlements related to the DSH Program as discussed below) of approximately $3,100,000 and $534,000 were recognized by Systems in 2012 and 2011, respectively, decreasing net patient service revenue in 2012 and increasing net patient service revenue in 2011.

Systems participates in the North Carolina Medicaid Reimbursement Initiative (the "MRI Plan"). The MRI Plan allows Systems and other North Carolina hospitals to receive additional annual Medicaid funding. In April 2012, CMS approved a North Carolina Medicaid assessment plan, to enhance the MRI Plan and to reduce the gap between Medicaid and uninsured costs and payments (the "GAP Plan") retroactive to January 2011. The GAP Plan was in effect for 2012 and will be in effect for future years. In connection with the GAP Plan, Systems paid, in 2012, assessments of approximately $2,204,000 and $1,561,000 related to the 2012 and 2011 GAP Plan years, respectively. Such amounts are included in other operating expenses in the accompanying consolidated statements of revenue, expenses and changes in net position.

Amounts received, amounts recognized in net patient service revenue, and amounts deferred under the MRI and GAP Plans are set forth in the following table:

Program Year	Amount Received	Amounts Recognized 2012	Amounts Recognized 2011	Deferred December 31, 2012	Deferred December 31, 2011
2011	* $ 14,493,000	$ 3,662,000	$ 9,538,000	$ 1,293,000	$ 1,060,000
2012	16,055,000	14,670,000	-	1,385,000	-
Totals	$ 30,548,000	$ 18,332,000	$ 9,538,000	$ 2,678,000	$ 1,060,000

* $3,895,000 of this amount was received in 2012.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Medicare and Medicaid Programs (Continued)

In 2012 and 2011, Systems recognized $18,332,000 and $9,538,000, respectively, as a reduction of contractual adjustments. Of the $18,332,000 recognized in 2012, $3,662,000 related to the 2011 program year and $14,670,000 related to the 2012 program year. As of December 31, 2012 and 2011, $2,678,000 and $1,060,000, respectively, was deferred. The deferred amounts are included in due to third-party payors in the accompanying consolidated balance sheets.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Systems believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Other Payors - Systems also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Systems under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Charity Care

Members of Systems provide care without charge or at amounts less than established rates to patients who meet certain criteria under their respective charity care policies. Records are maintained to identify and monitor the level of charity care provided. Because the entities do not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. For the years ended December 31, 2012 and 2011, charity care charges totaled approximately $14,161,000 and $13,147,000, respectively.

Rental Income Recognition

Rental income is recognized on a straight-line basis over the life of the respective lease.

Electronic Health Record Incentive Payments

As discussed in Note 14, Systems received funds under the Electronic Health Records (EHR) Incentive Program during 2011 and 2012. The Hospital recognizes revenue at the completion of the EHR reporting period and all meaningful use objectives and any other specific grant requirements that are applicable (such as electronic transmission of quality measures to CMS in the second and subsequent payment years) are met.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

NHCS, NHI, NCHS, the Foundation and Physicians are exempt from Federal income tax under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code.

MSO and NMDA have previously been treated as exempt from Federal income taxation under Section 501(a) of the Code as organizations described in Section 501(c)(3) of the Code. In August 2011, the Internal Revenue Service ("IRS") issued letters to NMSO and NMDA stating that their tax-exempt status as organizations described in Section 501(c)(3) of the Code had been revoked due to a failure to file IRS Form 990s for three consecutive years. Management filed the necessary IRS Form 990s, has filed for reapplication of tax-exempt status and has requested the IRS to retroactively reinstate MSO and NMDA's tax-exempt status. Management expects that the revocation will not have a material effect on the financial position or results from operations of Systems.

Imaging and Sycamore are single-member limited liability companies. As such, they are considered disregarded entities for tax purposes.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. Statement No. 14 and No. 34 were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also clarifies the reporting of equity interests in legally separate organizations. This statement will be effective for Systems' fiscal year ending December 31, 2013, and is not expected to have a significant impact on the consolidated financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27.* The objective of this statement is to establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expenses. This statement also addresses note disclosure and required supplementary information requirements. This statement will be effective for the Systems' fiscal year ending December 31, 2015. Management is currently evaluating the impact of this statement on the consolidated financial statements.

Reclassifications

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation, with no effect on previously reported income from operations or increase in net position.

NOTE 3 CONCENTRATIONS OF CREDIT RISK

NHI, MSO and Imaging provide services primarily to residents of the County and surrounding counties without collateral or other proof of ability to pay. Concentrations of credit risk with respect to patient accounts receivable are limited due to the large numbers of patients served and formalized agreements with third-party payors. NHI, MSO and Imaging have significant accounts receivable whose collectibility is dependent upon the performance of certain governmental programs, primarily Medicare and North Carolina Medicaid. Management does not believe there are significant credit risks associated with these governmental programs. The aggregate mix of gross receivables from patients and third-party payors as of December 31, 2012 and 2011, are as follows:

	2012	2011
Medicare	34 %	34 %
Medicaid	15	14
Managed Care	15	15
Commercial Insurance	1	1
Self-Pay	27	25
Other	8	11
Total	100 %	100 %

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS

Deposits and Custodial Credit Risk

All deposits of Systems are made in the Board-designated official depositories and are collateralized as required by North Carolina General Statute Section 159-31. Systems may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, Systems may establish time-deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

All of Systems' deposits are either insured or collateralized by using one of two methods. Under the dedicated method, all deposits over the Federal depository insurance coverage are collateralized with securities held by Systems' agent in Systems' name. Under the pooling method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the state treasurer's agent in the name of the state treasurer. Since the state treasurer is acting in a fiduciary capacity for Systems, these deposits are considered to be held by Systems in Systems' name. The amount of the pledged collateral is based on an approved averaging method of the pledged collateral for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the pooling method report the adequacy of their pooled collateral covering uninsured deposits to the state treasurer. The state treasurer does not confirm this information with Systems or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for Systems under the pooling method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flow. However, the state treasurer enforces strict standards of financial stability for each depository that collateralizes public deposits under the pooling method.

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Deposits and Custodial Credit Risk (Continued)

As of December 31, 2012 and 2011, the following table sets forth Systems' bank balances and the carrying amounts of deposits:

	2012	2011
Federal Depository Insurance Covered	$ 1,568,566	$ 1,305,590
Non-Interest-Bearing	569	2,464
Collateralized Under Pooling Method	18,193,018	2,172,699
Total Bank Balances	$ 19,762,153	$ 3,480,753
Carrying Amounts of Deposits	$ 18,152,952	$ 4,884,199

As of December 31, 2012 and 2011, the carrying amounts of deposits shown above are included in Systems' accompanying consolidated balance sheets as follows:

	2012	2011
Cash and Cash Equivalents	$ 17,834,054	$ 4,549,106
Assets Designated by Board	220,866	220,650
Other Deposits	98,032	114,443
Total Carrying Amounts of Deposits	$ 18,152,952	$ 4,884,199

As of December 31, 2012 and 2011, Systems held $12,726 and $11,825, respectively, in petty cash.

Investments and Credit Risk

North Carolina General Statute Section 159-30(c) authorizes Systems to invest in obligations of the United States of America or obligations fully guaranteed both as to principal and interest by the United States of America, obligations of the state of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain nonguaranteed Federal agencies, certain high-quality issues of commercial paper and bankers' acceptances, and the North Carolina Cash Management Trust, a Securities and Exchange Commission registered mutual fund. During 1997, NHI obtained legal opinions to support the investment of any funds not required for immediate disbursement in securities of funds other than those contained in North Carolina General Statute Section 159-30(c).

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Investments and Credit Risk (Continued)

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, System's investments are categorized by investment type. As of December 31, 2012 and 2011, Systems had the following investments (modified durations are in years):

Investment Type	2012 Fair Value	2012 Effective Duration	2012 Allocation %	2011 Fair Value	2011 Effective Duration	2011 Allocation %
Liquid Funds						
Investment Account Cash (Pending Reinvestment)						
Other Deposits	$ 532	N/A	N/A	$ 544	N/A	N/A
Repurchase Agreements						
Short-Term Investments	23,582,917	N/A	N/A	30,751,916	N/A	N/A
Money Market Funds						
Short-Term Investments	-	N/A	N/A	-	N/A	N/A
Subtotal of Liquid Funds	23,583,449			30,752,460		
Commercial Paper						
Assets Limited as to Use	37,583,335	N/A	N/A	-	N/A	N/A
Governmental Agencies						
Assets Limited as to Use	11,782,695	N/A	N/A	-	N/A	N/A
Subtotal of Assets Ltd as to Use	49,366,030			-		
Short and Intermediate Duration Fixed Income Funds						
Short Duration						
Long-Term Investments	14,342,065	2.10	9%	13,431,047	2.50	10%
Intermediate Duration						
Long-Term Investments	34,196,858	3.35		26,776,270	3.90	
Assets Designated by Board	44,150,978	3.35		40,653,791	3.90	
Other Deposits	6,561,087	3.35		6,041,900	3.90	
	84,908,923		51%	73,471,961		52%
Subtotal of Short and Intermediate Duration Fixed Income Funds	99,250,988			86,903,008		
Equities						
Domestic						
Long-Term Investments	16,432,256	N/A		12,341,425	N/A	
Assets Designated by Board	21,451,933	N/A		18,730,848	N/A	
	37,884,189		23%	31,072,273		22%
Hedge Fund						
Long-Term Investments	5,812,400	N/A		4,616,439	N/A	
Assets Designated by Board	7,425,972	N/A		6,975,952	N/A	
	13,238,372		8%	11,592,391		8%
International						
Long-Term Investments	6,227,997	N/A		4,212,738	N/A	
Assets Designated by Board	7,958,388	N/A		6,391,464	N/A	
	14,186,385		9%	10,604,202		8%
Total Fair Value	$ 237,509,413		100%	$ 170,924,334		100%

The assets limited at to use in current liabilities consists of unspent bond proceeds which will be used to fund construction projects in the upcoming year (See Note 9).

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Investments and Credit Risk (Continued)

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, System's investments are categorized by investment type. As of December 31, 2012 and 2011, Systems had the following investments (modified durations are in years):

	2012			2011		
Investment Type	Fair Value	Effective Duration	Allocation %	Fair Value	Effective Duration	Allocation %
Liquid Funds						
Investment Account Cash (Pending Reinvestment)						
Other Deposits	$ 532	N/A	N/A	$ 544	N/A	N/A
Repurchase Agreements						
Short-Term Investments	23,582,917	N/A	N/A	30,751,916	N/A	N/A
Money Market Funds						
Short-Term Investments	-	N/A	N/A	-	N/A	N/A
Subtotal of Liquid Funds	23,583,449			30,752,460		
Commercial Paper						
Assets Limited as to Use	37,583,335	N/A	N/A	-	N/A	N/A
Governmental Agencies						
Assets Limited as to Use	11,782,695	N/A	N/A	-	N/A	N/A
Subtotal of Assets Ltd as to Use	49,366,030			-		
Short and Intermediate Duration Fixed Income Funds						
Short Duration						
Long-Term Investments	14,342,065	2.10	9%	13,431,047	2.50	10%
Intermediate Duration						
Long-Term Investments	34,196,858	3.35		26,776,270	3.90	
Assets Designated by Board	44,150,978	3.35		40,653,791	3.90	
Other Deposits	6,561,087	3.35		6,041,900	3.90	
	84,908,923		51%	73,471,961		52%
Subtotal of Short and Intermediate Duration Fixed Income Funds	99,250,988			86,903,008		
Equities						
Domestic						
Long-Term Investments	16,432,256	N/A		12,341,425	N/A	
Assets Designated by Board	21,451,933	N/A		18,730,848	N/A	
	37,884,189		23%	31,072,273		22%
Hedge Fund						
Long-Term Investments	5,812,400	N/A		4,616,439	N/A	
Assets Designated by Board	7,425,972	N/A		6,975,952	N/A	
	13,238,372		8%	11,592,391		8%
International						
Long-Term Investments	6,227,997	N/A		4,212,738	N/A	
Assets Designated by Board	7,958,388	N/A		6,391,464	N/A	
	14,186,385		9%	10,604,202		8%
Total Fair Value	$ 237,509,413		100%	$ 170,924,334		100%

The assets limited at to use in current liabilities consists of unspent bond proceeds which will be used to fund construction projects in the upcoming year (See Note 9).

NOTE 4 CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Credit Risk

The credit quality ratings for System's applicable fixed income securities, which are not fully guaranteed by the United States government, as of December 31, 2012 and 2011, are listed below:

	2012		2011	
	Rating	Investment %	Rating	Investment %
PIMCO Moderate Duration Fund	AA-	23 %	AA-	21 %
PIMCO Low Duration Fund	AA-	3	AA-	4
MetWest Intermediate Bond Fund	A+	22	AA-	21
MetWest Low Duration Bond Fund	AA-	3	AA-	4

Interest Rate Risk

Systems manages its exposure to fair value losses arising from increasing interest rates by segregating its investment guidelines between short-term and long-term investments. Short-term funds, investments with a time horizon of one year or less, are allocated depending upon Systems' anticipated liquidity needs. The remaining portfolio is allocated to long-term investments. Within the long-term section of the portfolio, approximately 38% is allocated to equities and alternative investments and 62% to fixed income. Of the fixed income allocation, approximately $14.3 million at December 31, 2012 is allocated to short-duration fixed income investments for additional liquidity and the remainder is allocated to moderate-duration fixed income investments.

Foreign Currency Risk

Included in Systems' investment portfolio, as allowed by its investment guidelines, is an approximate 8% allocation to international equities. Systems investment in international equities consists of a single mutual fund whose investments are denominated in multiple foreign currencies. The manager of the fund does not hedge foreign currency risk. Accordingly, Systems' investment income will include foreign currency exchange gains and losses.

NOTE 5 OPERATING AGREEMENT WITH NASH COUNTY

During 1995, Systems renegotiated the existing operating agreement with the County for the use of the land and building originally purchased by the County. Systems prepaid the operating agreement amount of $12 million in 1995 which was amortized to expense through May 2011. During May 2001, Systems and the County extended the operating agreement through May 2031 (the "Third Amendment"). Under the Third Amendment, Systems will pay the County additional consideration of 4.5% of Systems' net income, as defined, from its immediately preceding fiscal year. This payment is made in May of each year and is being amortized to expense over a 12-month period.

NOTE 5 OPERATING AGREEMENT WITH NASH COUNTY (CONTINUED)

As of January 1, 2012, Systems and the County Amended and Restated Operating Agreement (the "Restated Agreement"). The term of the Restated Agreement expires on December 31, 2046, provided, however, that if any of the Series 2003 Bonds or any other additional bonds issued are outstanding as of the date of termination, the term shall be extended until such time that such additional bonds are paid in full, but in no event shall the term be extended beyond December 31, 2049. Under the Restated Agreement, Systems will pay the County consideration of 4.5% of Systems' net income, as defined, from its immediately preceding fiscal year.

Expense recognized during 2012 and 2011 was approximately $584,000 and $1,356,000, respectively. The 2012 expense is included in other operating expenses. Of the 2011 amounts, approximately $152,000 is included in purchased services and approximately $1,204,000 is included in other operating expenses. Prepaid expenses related to this agreement as of December 31, 2012 and 2011, were approximately $88,000 and $408,000, respectively. Payments to the County related to this agreement in 2012 and 2011 were approximately $264,000 and $1,224,000, respectively. The 2013 payment to the County will be approximately $717,000.

NOTE 6 CAPITAL ASSETS

A summary of changes in capital assets for 2012 is as follows:

2012	Beginning Balance	Additions / Transfers	Retirements / Impairments	Ending Balance
Land	$ 4,582,596	$ -	$ -	$ 4,582,596
Land Improvements	9,905,678	317,152	(737,767)	9,485,063
Buildings/Cap Int	109,854,255	2,088,250	(34,297)	111,908,208
Equipment	168,664,768	6,073,945	(3,553,865)	171,184,848
Capital Lease	1,674,000	-	-	1,674,000
Construction-in-Progress	4,442,954	20,542,479	-	24,985,433
	299,124,251	29,021,826	(4,325,929)	323,820,148
Less Accumulated Depreciation	(175,873,976)	(17,809,668)	3,664,575	(193,039,323)
	$ 123,250,275	$ 11,212,158	$ (661,354)	$ 130,780,825

NOTE 6 CAPITAL ASSETS (CONTINUED)

A summary of changes in capital assets for 2011 is as follows:

2011	Beginning Balance	Additions / Transfers	Retirements/	Ending Balance
Land	$ 4,589,712	$ -	$ (7,116)	$ 4,582,596
Land Improvements	8,482,744	1,425,174	(2,240)	9,905,678
Buildings/Cap Int	105,597,170	4,266,779	(9,694)	109,854,255
Equipment	147,158,996	22,729,518	(1,223,746)	168,664,768
Capital Lease	1,674,000	-	-	1,674,000
Construction-in-Progress	12,280,245	(7,837,291)	-	4,442,954
	279,782,867	20,584,180	(1,242,796)	299,124,251
Less Accumulated Depreciation	(160,351,070)	(16,732,424)	1,209,518	(175,873,976)
	$ 119,431,797	$ 3,851,756	$ (33,278)	$ 123,250,275

Depreciation expense on property and equipment recorded during the years ended December 31, 2012 and 2011 was approximately $17,810,000 and $16,732,000 in 2011, respectively.

Construction-in-progress at December 31, 2012 consisted of costs related mainly to the construction of a new emergency department and heart center (see Note 9).

NOTE 7 ACCOUNTS RECEIVABLE AND ACCRUED EXPENSES

The following table sets forth the components of patient accounts receivable and accrued expenses at December 31, 2012 and 2011:

	2012	2011
Patient Accounts Receivable		
Receivable from Patients and their Insurance	$ 38,074,108	$ 37,797,360
Receivable from Medicare	13,883,806	17,369,175
Receivable from Medicaid	5,777,400	4,401,129
	57,735,314	59,567,664
Less Allowance for Uncollectible Accounts	(23,126,677)	(23,035,017)
Patient Accounts Receivable, Net	$ 34,608,637	$ 36,532,647
Accrued Expenses		
Payroll and Related Items	$ 15,752,018	$ 13,821,568
Other	3,536,563	3,012,623
	$ 19,288,581	$ 16,834,191

NOTE 8 RETIREMENT PLANS

Basic Retirement Plan

Systems maintain a defined contribution retirement plan for its full-time employees in lieu of employee and employer contributions to the social security program. As instrumentalities of a political subdivision of the state of North Carolina, the subsidiaries are not subject to Title I and Title III of the Employee Retirement Income Security Act of 1974. Additionally, Systems is not subject to the Federal Insurance Contribution Act for employees hired prior to March 1986.

Contributions of generally 6.20% of total full-time compensation were made in 2012 and 2011 by both Systems and its full-time employees. Employee contributions and earnings thereon vest immediately. Employer contributions and earnings vest 100% after five years of service.

Systems' total contributions to the plan were approximately $4,350,000 and $4,402,000 in 2012 and 2011, respectively.

Employees' 401(k) Plan

Systems maintains a defined contribution salary reduction plan covering employees who have attained age 21 and have completed at least 90 days of creditable service. Each participant in the plan can contribute up to 25% of eligible compensation subject to a calendar year maximum of $17,000 in 2012 and $16,500 in 2011. Systems matched 50% of employee contributions, up to 6% of eligible compensation for calendar year 2012 and 2011. Effective January 1, 2012, the plan was amended whereby Systems matches 100% of employee contributions, up to 4% of eligible compensation. Additionally, Systems will make a special contribution ranging between 1% and 3% of annual salary for all employees meeting specified criteria. The contribution percentage is based upon employee status and length of eligible service. Systems' total contributions to the plan for the years ended December 31, 2012 and 2011 were approximately $3,583,000 and $1,448,000, respectively.

Supplemental Pension Plan

Systems maintains a single-employer supplemental defined benefit pension plan for all full-time employees who have completed three years of employment. Upon retirement, the amount of annual benefits is 1% of final average compensation multiplied by years of creditable service worked prior to July 1, 2008. Effective July 1, 2008, the plan was amended on a prospective basis to change the percentage of final average compensation multiplied by years of creditable service as follows:

Years of Credited Service	%
1-5	0.75%
6-10	1.00%
11-35	1.25%

Years of credited service is limited to 35 years.

NOTE 8 RETIREMENT PLANS

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Years of Credited Service	%
1-5	0.75%
6-10	1.00%
11-35	1.25%

Years of credited service is limited to 35 years.

NOTE 8 RETIREMENT PLANS (CONTINUED)

Supplemental Pension Plan (Continued)

Effective December 31, 2011, the plan was frozen. A one-time grant of additional years of credited service, not subject to the 35 year limit, was given contemporaneously with the freezing of the plan to certain employees based on eligibility requirements. No additional years of credited service will be made following December 31, 2011.

The plan sponsor issues a stand-alone financial report that may be obtained from Systems. Systems funds the supplemental pension plan using the entry age normal actuarial cost method.

Systems' annual pension cost and net pension asset for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Annual Required Contribution	$ 760,000	$ (2,873,000)
Interest on Net Pension Asset	429,000	409,000
Adjustment to Annual Required Contribution	(546,000)	(521,000)
Annual Pension Cost	643,000	(2,985,000)
Contributions Made	3,000,000	3,228,000
Increase in Net Pension Asset	3,643,000	243,000
Net Pension Asset - Beginning of Year	5,360,000	5,117,000
Net Pension Asset - End of Year	$ 9,003,000	$ 5,360,000

The annual required contribution of 2012 and 2011 was determined as part of the December 31, 2012 and 2011 actuarial valuation, respectively, using the entry age normal actuarial cost method. As of December 31, 2012 and 2011, the actuarial assumptions included an 8% investment rate with projected salary increases of 4.5% annually, respectively. The unfunded actuarial liability is amortized over a rolling 20-year period with negative amortization permitted. The method used to determine the actuarial value of assets is a method that smoothes gains and losses in the market value of those assets over a 5-year period.

Three-year trend information is as follows:

	Annual Pension Cost (APC)	Percent of APC Contributed	Net Pension Asset
2010	$ 2,968,000	108 %	$ 5,117,000
2011	2,985,000	108	5,360,000
2012	(643,000)	467	9,003,000

NOTE 8 RETIREMENT PLANS (CONTINUED)

Supplemental Pension Plan (Continued)

Contributions of $3,000,000 made in 2012 represent net payments made on behalf of retirees. As of January 1, 2012, the most recent actuarial valuation date, the plan was 123.4% funded. The covered payroll (annual payroll of active employees covered by the plan) was approximately $61,667,000, and the ratio of the UAAL to the covered payroll was -22.0% for 2012.

Postemployment Retiree Health Plan

Systems maintains a single-employer defined benefit health insurance plan, providing medical insurance benefits to eligible retirees aged 60 through 64 and with 10 years of service and their spouses. Systems adopted GASB Statement No. 45 in 2007 on a prospective basis.

GASB Statement No. 45 does not require funding of the OPEB expense; however, in 2008 Systems funded the Actuarial Accrued Liability amount of $1,048,000 at December 31, 2008. No funding has been made since 2008.

Systems' annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Systems' annual OPEB cost, the amount actually contributed to the plan, and changes in Systems' net OPEB obligation for the years ended December 31, 2012 and 2011:

	2012	2011
Annual Required Contribution	$ (69,000)	$ (67,000)
Interest on Net OPEB Asset	242,000	190,000
Adjustment to Annual Required Contribution	(308,000)	(242,000)
Annual OPEB Benefit	(135,000)	(119,000)
Contributions Made	1,583,000	771,000
Increase in Net OPEB Asset	1,448,000	652,000
NET OPEB Asset - Beginning of Year	3,026,000	2,374,000
NET OPEB Asset - End of Year	$ 4,474,000	$ 3,026,000

Contributions made of approximately $1,583,000 and $771,000 in 2012 and 2011, respectively, represent net health insurance payments made on behalf of retirees. As of January 1, 2012, the most recent actuarial valuation date, the plan was 81% funded. The covered payroll (annual payroll of active employees covered by the plan) was approximately $53,085,000, and the ratio of the UAAL to the covered payroll was 0.5% for 2012.

NOTE 8 RETIREMENT PLANS (CONTINUED)

Postemployment Retiree Health Plan (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the consolidated financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In both the January 1, 2012 and 2011 actuarial valuations, the entry age normal actuarial cost method was used. The actuarial assumptions included an 8% discount rate and an annual health care cost trend rate of 9% initially, reduced by decrements to an ultimate rate of 5% after eight years. The UAAL is being amortized over a rolling 20-year period with a negative amortization being permitted. The remaining amortization period at January 1, 2012, was 20 years.

Membership of the postemployment retiree health plan consisted of the following at January 1, 2012, the date of the latest actuarial valuation:

	2012	2011
Retirees Eligible for Benefits	42	42
Active Plan Members	941	941
	983	983

NOTE 8 RETIREMENT PLANS (CONTINUED)

Postemployment Retiree Health Plan (Continued)

Other significant actuarial assumptions include:

Disability	None Assumed
Mortality	2008 Current Liability Mortality Table for Males and Females
Termination Table	Crocker, Sarason and Straight T-5 Turnover Table
Assumed Retirement Age Probability	5% at Age 60 and 61; 15% at Age 62: 10% at Age 63 and 64; 100% at Age 65
Marriage	Male spouses are assumed 4 years older than their wives. Assumed that 80% of all male and 65% of female participants are married

NOTE 9 LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION

Long-term debt at December 31, 2012 and 2011 consisted of the following:

	2012	2011
2003 Serial Bonds maturing from November 1, 2003 to November 1, 2030, with interest rates ranging from 4.0% to 5.0%	$ 42,700,000	$ 44,200,000
2012 Serial Bonds maturing from November 1, 2013 to November 1, 2041, with interest rates ranging from 2.0% to 4.7%	70,000,000	-
	$ 112,700,000	$ 44,200,000
Unamortized Premium on Series 2003 Bonds	52,882	129,802
Unamortized Discount on Series 2012 Bonds	(417,130)	-
	112,335,752	44,329,802
Less: Current Maturities	(1,965,000)	(1,500,000)
	$ 110,370,752	$ 42,829,802

Effective January 31, 2003, Systems, through the North Carolina Local Government Commission, issued $55,000,000 of variable rate Health Care Facilities Revenue Bonds, Series 2003 (the "Series 2003 Bonds"). Approximately $29,100,000 was used to reimburse Systems for the cost of capital projects that had been incurred prior to the issuance of the Series 2003 Bonds, and approximately $2,700,000 was used to finance the cost of the bond issuance. The remainder of the proceeds of $23,200,000 was used for the construction of a surgery center and for other capital projects and equipment. The Series 2003 Bonds are callable by Systems beginning November 2018 at par.

NOTE 9 LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION (CONTINUED)

The Series 2003 Bonds contain conversion features whereby, under certain conditions, the bonds could convert from a variable rate to fixed interest rates. In May 2008, the Series 2003 Bonds were converted to fixed interest rates of 4.0% to 5.0% (the "2008 Bond Conversion") at a net premium of $560,382. The premium amount is being amortized over the life of the bonds using the effective interest method. The bond agreement does not require that the Series 2003 Bonds be supported by a letter of credit, line of credit, standby bond purchase agreement, or other form of liquidity support.

Effective March 22, 2012, Systems, through the North Carolina Local Government Commission, issued $70,000,000 of fixed rate Health Care Facilities Revenue Bonds, Series 2012 (the "Series 2012 Bonds"). The Series 2012 Bonds were issued at a net discount of approximately $411,000 and with interest rates ranging from 2.0% to 4.7%. The discount amount is being amortized over the life of the bonds using the effective interest method. Approximately $8,803,000 was used to reimburse Systems for the cost of capital projects that had been incurred prior to the issuance of the Series 2012 Bonds, and approximately $827,000 was used to finance the cost of the bond issuance. The remainder of the proceeds of approximately $59,959,000 are being used for the construction of a Heart Center and Emergency Department and for other capital projects and equipment. The Series 2012 Bonds are callable by Systems beginning May 2022 at par.

The Series 2003 and 2012 Bonds are collateralized by the accounts of Systems and all proceeds thereof. The bond agreement requires Systems to, among other things, set rates at a level that will provide a certain long-term debt service coverage ratio (as defined in the bond agreement) at a minimum level of 1.35, make mandatory sinking fund redemptions, and maintain certain fund accounts. As of December 31, 2012, management believes Systems was in compliance with such covenants, including the long-term debt service coverage ratio, which was 7.4 for the year ended December 31, 2012.

Systems has entered into a non-cancelable capital lease obligation for certain equipment related to an electronic health information system which expires in 2016.

A summary of changes in long-term debt for the year ended December 31, 2012 is as follows:

	Beginning Balance	Additions	Payments / Reductions	Ending Balance	Current Portion
Series 2003 Bonds	$ 44,200,000	$ -	$ (1,500,000)	$ 42,700,000	$ 1,600,000
Series 2012 Bonds	-	70,000,000	-	70,000,000	365,000
Capital Lease Obligation	1,236,607	-	(230,395)	1,006,212	238,563
	$ 45,436,607	$ 70,000,000	$ (1,730,395)	$ 113,706,212	$ 2,203,563

NOTE 9 LONG-TERM DEBT AND CAPITAL LEASE OBLIGATION (CONTINUED)

A summary of changes in long-term debt for the year ended December 31, 2011 is as follows:

	Beginning Balance	Additions	Payments / Reductions	Ending Balance	Current Portion
Series 2003 Bonds	$ 45,600,000	$ -	$ (1,400,000)	$ 44,200,000	$ 1,500,000
Capital Lease Obligation	1,459,112	-	(222,505)	1,236,607	230,395
	$ 47,059,112	$ -	$ (1,622,505)	$ 45,436,607	$ 1,730,395

The fair value of Systems' long-term debt at December 31, 2012 and 2011 was approximately $120,823,000 and $47,240,000, respectively.

At December 31, 2012, future debt service requirements are as follows:

	Long-Term Debt		Capital Lease Obligation		
	Principal	Interest	Principal	Interest	Total
2013	$ 1,965,000	$ 5,232,100	$ 238,563	$ 31,317	$ 7,466,980
2014	2,055,000	5,144,800	247,021	22,859	7,469,680
2015	2,150,000	5,050,925	255,779	14,101	7,470,805
2016	2,245,000	4,952,425	264,849	5,032	7,467,306
2017	2,330,000	4,867,075	-	-	7,197,075
2018-2022	13,140,000	22,851,025	-	-	35,991,025
2023-2027	16,410,000	19,587,450	-	-	35,997,450
2028-2032	20,880,000	15,120,764	-	-	36,000,764
2033-2037	26,000,000	9,993,850	-	-	35,993,850
2038-2041	25,525,000	3,268,500	-	-	28,793,500
	$ 112,700,000	$ 96,068,914	$ 1,006,212	$ 73,309	$ 209,848,435

NOTE 10 LITIGATION AND RELATED PROFESSIONAL LIABILITY INSURANCE COVERAGE

Malpractice claims arising from services provided to patients have been asserted against Systems by various claimants, and additional claims may be asserted for known incidents through December 31, 2012. The claims are in various stages of processing, and some may ultimately be brought to trial. Moreover, additional claims arising from services provided to patients in the past may be asserted.

In order for Systems to maintain professional liability insurance coverage, it must purchase a new policy each year as coverage is maintained on a "claims-made" basis.

From January 1, 1999 to March 31, 2002, Systems was covered under a combined claims-made insurance policy with The Reciprocal of America (the "Reciprocal"). In January 2003, the Reciprocal was placed in receivership by the Virginia State Corporation Commission. Accordingly, there is no assurance that the Reciprocal will be able to pay outstanding reported malpractice claims.

NOTE 10 LITIGATION AND RELATED PROFESSIONAL LIABILITY INSURANCE COVERAGE (CONTINUED)

Management believes that all potential claims for which the Reciprocal would have been the only source of liability insurance coverage have been satisfactorily settled, or are now time barred by the applicable statute of limitations, without having a material adverse effect on Systems' financial position, changes in net position, or cash flows.

Management is of the opinion that, taking into account the applicable professional liability insurance coverage, Systems' experience with past lawsuits and claims and the amount accrued for malpractice liability as of December 31, 2012, the results of these lawsuits and potential lawsuits will not have a material adverse effect on Systems' financial position, changes in net position, or cash flows.

As of December 31, 2012 and 2011, Systems recorded approximately $2,580,000 and $3,150,000, respectively, for occurrences reported as follows:

	2012	2011
Current	$ 1,200,000	$ 1,200,000
Long-Term	1,380,000	1,950,000
Total Malpractice Liability	$ 2,580,000	$ 3,150,000

For the years ended December 31, 2012 and 2011, the following is a summary of the activity in the liability for medical malpractice claims:

	Beginning Balance	Additions	Deletions	Ending Balance
2012	$ 3,150,000	$ 500,000	$ (1,070,000)	$ 2,580,000
2011	3,410,000	500,000	(760,000)	3,150,000

NOTE 11 SELF-INSURANCE – MEDICAL BENEFITS

Systems is self-insured for employee medical benefits. The plan covers all full-time employees who elect coverage beginning on the first day of the month on, or following, their ninetieth day of employment. Aggregate stop-loss and specific stop-loss coverage has been purchased to mitigate the risk of catastrophic claims. Systems' self-insured liabilities consisted of approximately $1,971,000 and $2,402,000 in estimated claims incurred but not reported as of December 31, 2012 and 2011, respectively. The combined expense for Systems relating to the plan for 2012 and 2011 was approximately $11,745,000 and $11,641,000, respectively.

NOTE 12 PURCHASE COMMITMENTS

As of December 31, 2012, Systems has executed commitments relating to numerous construction projects and equipment purchases of approximately $50 million of which approximately $19 million has been incurred as of December 31, 2012, and approximately $31 million remains in outstanding commitments.

NOTE 13 BUILDING RENTAL INCOME

Building rental income under operating leases was approximately $2,527,000 and $2,446,000 for 2012 and 2011, respectively. Future basic rental income under non-cancelable agreements subsequent to December 31, 2012, is as follows:

2013	$ 2,445,000
2014	1,629,000
2015	833,000
2016	821,000
2017	810,000
Total	$ 6,538,000

NOTE 14 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on Systems continuing to meet the escalating meaningful use criteria. For the first payment year, Systems must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, Systems must demonstrate meaningful use for the entire year. The incentive payments are generally made over a 4-year period.

Systems demonstrated meaningful use to the 90-day period ended September 30, 2011, and received the first tentative incentive payments of approximately $2,787,000 and $1,261,000 for Medicare and Medicaid, respectively, in December 2011. Of the $4,048,000 received, $3,907,000 is recognized as other operating revenue in the statement of revenues, expenses, and changes in net position. Systems received incentive payments of approximately $2,089,000 and $954,000 for Medicare and Medicaid, respectively, in 2012. All payments received in 2012 were recognized as other operating revenue in the statement of revenues, expenses, and changes in net position. The final amount of this payment will be determined based on information from Systems' Medicare cost report for the year ending December 31, 2012. Events could occur that would cause the final payment to differ materially upon final settlement.

REQUIRED SUPPLEMENTARY INFORMATION

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES
SCHEDULE OF PLAN FUNDING PROGRESS
DECEMBER 31, 2012

The following table sets forth the funding progress for the following benefit plans:

OTHER POSTEMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2007	$ -	$ 1,048,320	$ 1,048,320	0 %	$48,592,194	2.2 %
January 1, 2009	1,053,098	1,139,834	86,736	92.4	50,571,001	0.2
January 1, 2011	1,204,550	1,503,364	298,814	80.1	50,557,432	0.6
January 1, 2012	1,207,775	1,499,446	291,671	81.0	53,085,300	0.5

SUPPLEMENTAL PENSION PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
January 1, 2005	$39,834,900	$50,084,900	$10,250,000	79.5 %	$45,732,400	22.4 %
January 1, 2006	48,445,891	54,327,252	5,881,361	89.2	46,898,938	12.5
January 1, 2007	53,339,669	58,190,715	4,851,046	91.7	48,592,194	10.0
January 1, 2008	59,515,040	64,561,560	5,046,520	92.2	51,496,775	9.8
January 1, 2009	53,556,157	69,135,947	15,579,790	77.5	50,571,001	30.8
January 1, 2010	63,674,671	71,262,650	7,587,979	89.4	53,735,186	14.1
January 1, 2011	68,228,441	75,373,206	7,144,765	90.5	55,280,440	12.9
January 1, 2012	71,668,656	58,073,905	(13,594,751)	123.4	61,666,560	(22.0)

SUPPLEMENTAL SCHEDULES

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2012

ASSETS	NHI	NHCS	MSO	NMDA	NCHS	Foundation	Non-Restricted Affiliates	Subtotal	Eliminations	Total
CURRENT ASSETS										
Cash and Cash Equivalents	$ 16,262,253	$ 105,301	$ 148,661	$ 120,551	$ 210,278	$ 961,273	$ 38,463	$ 17,846,780	$ -	$ 17,846,780
Short-Term Investments	23,582,917	-	-	-	-	-	-	23,582,917	-	23,582,917
Assets Limited as to use Short-Term	49,366,030	-	-	-	-	-	-	49,366,030	-	49,366,030
Accounts Receivable										
Patient Services - Net	33,931,386	-	647,807	-	-	-	29,444	34,608,637	-	34,608,637
Other	4,846,436	-	597	52,677	17,725	815,898	30,937	5,764,270	-	5,764,270
Affiliates	6,232,716	3,105,847	-	-	5,850,000	63,906	-	15,252,469	(15,252,469)	-
Inventories	4,160,847	-	-	-	-	-	-	4,160,847	-	4,160,847
Prepaid Expenses and Other	3,240,294	88,068	-	10,098	8,694	10,480	2,786	3,360,420	-	3,360,420
Total Current Assets	141,622,879	3,299,216	797,065	183,326	6,086,697	1,851,557	101,630	153,942,370	(15,252,469)	138,689,901
CAPITAL ASSETS - NET										
' and	2,922,749	-	-	280,285	630,000	-	749,562	4,582,596	-	4,582,596
reciable Assets and CIP	292,670,670	-	200,544	16,980,182	6,613,375	-	3,051,005	319,515,776	(278,224)	319,237,552
Total Capital Assets	295,593,419	-	200,544	17,260,467	7,243,375	-	3,800,567	324,098,372	(278,224)	323,820,148
Less Accumulated Depreciation and Amortization	(179,966,213)	-	(55,937)	(7,229,744)	(4,639,578)	-	(1,333,335)	(193,224,807)	185,484	(193,039,323)
Total Capital Assets - Net	115,627,206	-	144,607	10,030,723	2,603,797	-	2,467,232	130,873,565	(92,740)	130,780,825
LONG-TERM ASSETS										
Investments	77,011,576	-	-	-	-	-	-	77,011,576	-	77,011,576
Assets Designated by Board	-	81,208,137	-	-	-	-	-	81,208,137	-	81,208,137
Prepaid Expenses and Other	13,707,388	-	-	-	-	-	-	13,707,388	-	13,707,388
Other Deposits	6,659,651	-	-	-	-	-	-	6,659,651	-	6,659,651
Deferred Costs - Net	2,213,822	-	-	-	-	-	-	2,213,822	-	2,213,822
Other	782,564	125,000	-	48,043	-	-	-	955,607	-	955,607
Total Long-Term Assets	100,375,001	81,333,137	-	48,043	-	-	-	181,756,181	-	181,756,181
Total Assets	$ 357,625,086	$ 84,632,353	$ 941,672	$ 10,262,092	$ 8,690,494	$ 1,851,557	$ 2,568,862	$ 466,572,116	$ (15,345,209)	$ 451,226,907

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET (CONTINUED)
DECEMBER 31, 2012

LIABILITIES AND NET POSITION	NHI	NHCS	MSO	NMDA	NCHS	Foundation	Non-Restricted Affiliates	Subtotal	Eliminations	Total
CURRENT LIABILITIES										
Current Portion of Long-Term Debt	$ 1,965,000	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,965,000	$ -	$ 1,965,000
Current Portion of Capital Lease Obligation	238,563	-	-	-	-	-	-	238,563	-	238,563
Accounts Payable	8,875,978	-	51,975	12,044	4,894	1,266	36,309	8,982,466	-	8,982,466
Accounts Payable - Due to Affiliates	9,002,223	17,530	1,114,512	3,053,002	28,029	-	2,037,173	15,252,469	(15,252,469)	-
Due to Third-Party Payors	11,445,675	-	-	-	-	-	-	11,445,675	-	11,445,675
Accrued Expenses	18,619,965	21,600	403,382	71,192	57,625	106,458	8,359	19,288,581	-	19,288,581
Total Current Liabilities	50,147,404	39,130	1,569,869	3,136,238	90,548	107,724	2,081,841	57,172,754	(15,252,469)	41,920,285
LONG-TERM LIABILITIES										
ng-Term Debt	110,370,752	-	-	-	-	-	-	110,370,752	-	110,370,752
ital Lease Obligation	767,649	-	-	-	-	-	-	767,649	-	767,649
r Long-Term Liabilities	1,380,000	-	-	274,997	-	-	-	1,654,997	-	1,654,997
Total Long-Term Liabilities	112,518,401	-	-	274,997	-	-	-	112,793,398	-	112,793,398
Total Liabilities	162,665,805	39,130	1,569,869	3,411,235	90,548	107,724	2,081,841	169,966,152	(15,252,469)	154,713,683
NET POSITION (DEFICIT)										
Net Investment in Capital Assets	51,651,272	-	144,607	10,030,723	2,603,797	-	2,467,232	66,897,631	(92,740)	66,804,891
Restricted	-	-	-	-	-	1,743,833	-	1,743,833	-	1,743,833
Unrestricted	143,308,009	84,593,223	(772,804)	(3,179,866)	5,996,149	-	(1,980,211)	227,964,500	-	227,964,500
Total Net Position (Deficit)	194,959,281	84,593,223	(628,197)	6,850,857	8,599,946	1,743,833	487,021	296,605,964	(92,740)	296,513,224
Total Liabilities and Net Position	$ 357,625,086	$ 84,632,353	$ 941,672	$ 10,262,092	$ 8,690,494	$ 1,851,557	$ 2,568,862	$ 466,572,116	$ (15,345,209)	$ 451,226,907

NASH HEALTH CARE SYSTEMS AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2012

	NHI	NHCS	MSO	NMDA	NCHS	Foundation	Non-Restricted Affiliates	Subtotal	Eliminations	Total
OPERATING REVENUE										
Gross Patient Service Revenue										
Inpatient	$ 279,176,474	$ -	$ -	$ -	$ -	$ -	$ -	$ 279,176,474	$ -	$ 279,176,474
Outpatient	306,537,685	-	4,531,171	-	-	-	1,608,444	312,677,300	-	312,677,300
Total Gross Patient Service Revenue	585,714,159	-	4,531,171	-	-	-	1,608,444	591,853,774	-	591,853,774
Less										
Contractual Adjustments	329,747,048	-	2,542,378	-	-	-	1,169,616	333,459,042	-	333,459,042
Charity Care	14,160,232	-	-	-	-	-	916	14,161,148	-	14,161,148
Provision for Uncollectible Accounts	32,650,642	-	206,956	-	(325)	-	59,096	32,916,369	-	32,916,369
Net Patient Service Revenue	209,156,237	-	1,781,837	-	325	-	378,816	211,317,215	-	211,317,215
Other	6,253,378	-	5,069	1,655,052	1,093,629	-	170,680	9,177,808	(598,020)	8,579,788
Total Operating Revenue	215,409,615	-	1,786,906	1,655,052	1,093,954	-	549,496	220,495,023	(598,020)	219,897,003
OPERATING EXPENSES										
Salaries	89,576,056	-	2,034,551	5,096	-	-	-	91,615,703	-	91,615,703
Employee Benefits	23,620,583	-	380,746	1,580	-	-	-	24,002,909	-	24,002,909
terials and Supplies	35,541,208	-	85,087	20,710	11,499	-	812	35,659,316	-	35,659,316
chased Services	20,519,696	-	528,314	208,576	88,383	-	151,886	21,496,855	(598,020)	20,898,835
preciation	16,266,403	-	25,796	842,792	306,770	-	383,364	17,825,125	(15,457)	17,809,668
tilities	4,008,174	-	50,261	200,700	164,886	-	70,699	4,494,720	-	4,494,720
Professional Fees	6,701,625	9,095	263,778	7,477	8,950	-	465,000	7,455,925	-	7,455,925
Insurance	1,065,127	-	217,736	11,364	4,488	-	17,720	1,316,435	-	1,316,435
Interest	3,065,084	-	-	-	-	-	-	3,065,084	-	3,065,084
General Administration Allocation	(520,860)	-	59,748	211,152	249,960	-	-	-	-	-
Other	11,501,254	-	34,368	142,912	9,322	-	3,403	11,691,259	-	11,691,259
Total Operating Expenses	211,344,350	9,095	3,680,385	1,652,359	844,258	-	1,092,884	218,623,331	(613,477)	218,009,854
INCOME (LOSS) FROM OPERATIONS	4,065,265	(9,095)	(1,893,479)	2,693	249,696	-	(543,388)	1,871,692	15,457	1,887,149
NONOPERATING REVENUE (EXPENSE) - NET										
Investment Income	7,396,335	8,109,731	114	6,790	138	328	-	15,513,436	-	15,513,436
Contributions, Net	(1,411)	-	-	-	-	913,302	-	911,891	-	911,891
Other, Net	30,555	-	-	-	-	6,550	-	37,105	-	37,105
Total Nonoperating Revenue (Expense) - Net	7,425,479	8,109,731	114	6,790	138	920,180	-	16,462,432	-	16,462,432
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	11,490,744	8,100,636	(1,893,365)	9,483	249,834	920,180	(543,388)	18,334,124	15,457	18,349,581
TRANSFERS BETWEEN AFFILIATES	(6,168,290)	-	4,430,000	-	-	28,290	1,710,000	-	-	-
CHANGE IN NET POSITION	$ 5,322,454	$ 8,100,636	$ 2,536,635	$ 9,483	$ 249,834	$ 948,470	$ 1,166,612	$ 18,334,124	$ 15,457	$ 18,349,581