National Federation of Municipal Analysts
Recommended Best Practices in Disclosure for Hospital Debt Transactions

The National Federation of Municipal Analysts (NFMA), since our 1983 inception, has been in the forefront of efforts to improve disclosure of credit and market risks that have faced analysts and investors in the taxable and tax-exempt municipal bond markets. Our work in this regard has been recognized by other industry associations and by various regulatory bodies, and an amicus brief we filed with the US Supreme Court in re Davis v Kentucky was cited by the Court in support of their decision in that case.

NFMA is an organization of over 1,200 members, primarily research analysts, whose profession is to evaluate credit and other risks of municipal securities. These individuals represent, among other types of firms, mutual funds, insurance companies, broker/dealers, commercial banks, and rating agencies.

NFMA's disclosure efforts have ranged from global issues, some of which are communicated to members of Congress and federal regulatory agencies, to detailed work on specific credit sectors. For further information on our continuing efforts to improve municipal disclosure, please refer to "Disclosure Guidelines" and "Position Statements" in the "Publications" section of our website (www.nfma.org).

Our primary means of communicating sector-specific recommendations are "White Papers" and "Recommended Best Practices in Disclosure" (RBPs).

White Papers are NFMA's preferred method of comment when our disclosure recommendations have not previously been articulated in a detailed or organized manner. As a rule, White Papers are written by a team of NFMA members who represent different types of companies.

Recommended Best Practices in Disclosure (RBPs), on the other hand, are utilized when a given analytical topic has previously been subject to thorough discussion. When RBPs are developed, diverse groups of NFMA analysts work with representatives of industry groups and other market professionals to develop best practices guidelines on certain market sectors or topics.

This Recommended Best Practices in Disclosure for Hospital Debt Transactions updates a 2000 RBP on the same topic, in order to account for changes that have occurred in the market for tax-exempt health care obligations since that time.

Please note that this document is intended to complement, rather than supplant, guidance provided by SEC Rule 15c2-12 and its amendments.

NFMA's disclosure efforts are a continuing process. This RBP, and White Papers, are not static documents but are revised as market conditions warrant. We encourage interested parties to contact the NFMA, via our website, to submit comments regarding this and any other document that appear on the website.

As a final note, neither the recommendations included in this RBP nor the information within it are intended to apply equally to all situations and issuers/obligors. We encourage providers of information to indicate when a specific item requested in the White Paper is not applicable to a particular situation.

BACKGROUND

The Health Care Disclosure Subcommittee, established by the NFMA in 1998, produced our first RBP in Disclosure for Hospital Debt Transactions. That RBP, released in August 2000, was the result of a process that included not only NFMA members but also representatives of various industry groups. The current RBP for Hospital Debt Transactions seeks, with similar input from our members and other parties who are expert in this sector, to update our earlier RBP focused on disclosure for hospitals and hospital systems.

HOSPITAL BOND DISCLOSURE ISSUES

While municipal market disclosure has improved since the adoption by the Securities and Exchange Commission of its 1994 Amendments to Rule 15c2-12 (the "Amendments"), analysts continue to find that the quality and timing of disclosure for hospital bonds generally need further improvement. Investors, potential investors, and other interested parties continue to experience difficulties obtaining information that is sufficient to initially assess and subsequently monitor hospital credit risk. Investors often find it more difficult to contact borrowers to discuss relevant operational issues.

The broad-based disruption that occurred in the capital markets beginning in 2008 caused fundamental changes in the breadth and depth of information that municipal bond analysts require in order to meet their fiduciary obligations in terms of credit review. Specifically, the severe erosion in credit quality experienced by many banks and bond insurers since 2008 exposed a material weakness in what had been common disclosure practices. Public disclosure for credit enhanced bonds, especially those rated at or near the top of the ratings scale, was severely lacking. Holders of many of these enhanced bonds suddenly found themselves with much lower rated securities and very little information on the underlying credit, which had become in many cases their most likely source of repayment. A main objective of this updated Recommended Best Practices is to cure deficiencies in current disclosure practice that have become evident since the onset of the credit crisis.

It is our opinion that hospital credits are as volatile as corporate credits, and as such, hospital disclosure should be provided at least as frequently and in as timely a manner as for corporate issuers. While the NFMA is not suggesting that issuers incur the time and expense required to produce an extensive 10Q or 10K type of disclosure document, improvement is needed. In addition, it should be noted that the SEC has established suitability standards for the brokerage community that cannot be met in this sector without more frequent and more complete disclosure.

ESTABLISHING THE RECOMMENDED BEST PRACTICES

The NFMA has attempted to alleviate, at least in part, concerns that may be raised by issuers, obligors, and any other interested parties that seek to follow our Recommended Best Practices. We are cognizant of the fact that time and money are limited resources and have attempted to address this issue by limiting our requested financial and operating information to data that we believe is normally monitored on a monthly basis by hospital providers and routinely provided to the agencies that rate the hospital's bonds.

While we acknowledge that the management discussion portion of the recommended changes may require some additional time and effort by the borrower, the additional information provided is extremely important to the market and may eliminate some of the problems that currently occur in the secondary market.

A common concern mentioned by hospital CFOs relates to "access" issues, especially when bonds are for sale in the secondary market. For example, how does a CFO respond to numerous phone calls requesting financials and a discussion thereof because his bonds are out for the bid? One answer is that readily available quarterly financials would relieve some of the pressure. Management discussions and other items we are requesting would also help close the information gap. Finally, periodic investor calls or the opportunity for regularized access to hospital personnel can eliminate the need for "emergency" response calls to the market. For example, prescheduled quarterly conference calls with investors and other market participants can be utilized to reduce or eliminate the need for ad hoc investor calls. To help address selective disclosure concerns, and to provide the greatest benefit to analysts and other interested parties, conference calls should be recorded and made available over the telephone or internet at no charge to investors and other market participants.

USING THE RECOMMENDED BEST PRACTICES

In recognition of the diversity among health care entities that issue bonds, the Recommended Best Practices for Hospital Debt Transactions presented below should be interpreted and applied to suit the organizational characteristics of the borrower.

For example, if the borrower uses an obligated group structure in which "Obligated Persons" constitute a subset of a larger system or parent organization, financial and statistical information should be disclosed for both the Obligated Persons and the parent or system organization. By doing so, analysts can assess performance of the Obligated Persons within the context of a borrower's non-obligated operations.

Similarly, if the borrower uses a corporate debenture-style legal structure in which restricted affiliates secure the bonds, reporting should disclose financial and statistical performance for the restricted affiliates as well as that for all material entities that comprise the system. Disclosure should also be provided for those parts of the system that are not specifically designated to contribute to the repayment of debt obligations.

Consolidated financial and statistical information should be presented at least annually for reporting entities customarily monitored by management. Information should be provided in a timely manner and should include the name of an appropriate contact person, telephone number and e-mail address, enabling interested parties to obtain further clarification on information disclosed.

To the extent possible, data should be defined consistently over time, with any changes in definitions clearly highlighted. All financial statements submitted, including interim statements, should include a balance sheet, a statement of operations and changes in net assets, and a statement of cash flows, all with relevant footnotes.

DISCLOSURE ITEMS

These recommended disclosure items are intended to serve as a guide for the type of information that bondholders, potential investors, and other interested parties require on an ongoing basis. If some of the items do not apply to the Obligated Persons or similar parties, we request that an explanation be provided regarding why that information is not applicable.

1. Annual audited financial statements which include a complete set of comparable figures for the prior fiscal year. The annual audit should be provided within 120 days of fiscal year end. For borrowers that consist of more than a single hospital facility, consolidating schedules should also be provided.

2. Quarterly unaudited financial statements should be provided for all four fiscal quarters, and should also include a complete set of comparable figures for the appropriate prior period. Quarterly financial statement filings should include a balance sheet, a statement of operations and a statement of changes in cash flows and should also include a comparison against the current year's budget. The quarterly statements should be provided within 45 days of quarter end. If possible, footnotes to the financial statements should also be included. Finally, a narrative that describes material variances from budget and changes that may have occurred from the previous quarterly period are requested.

3. Management discussion and analysis should accompany the annual audited and/or quarterly financial statements and should explain the reasons for material variances from budget, and changes in profitability and balance sheet positions from the prior year's reporting period.

In this discussion, management should provide meaningful insight regarding the underlying factors that gave rise to such differences and changes, rather than simply reciting the numerical comparisons presented in the statements. As appropriate, management should explain observed trends in revenues, expenses, and operating income or losses. Remedial initiatives undertaken should also be described, e.g. the hiring of a management consultant. The discussion should encompass all material developments in factors affecting the organization's creditworthiness, which could also include trends in investment income, contributions, asset write-downs if applicable, union activity, material litigation, and any changes in corporate ownership or senior management. This discussion should also include the percent of revenues from managed care contracts, with a description of the managed care dynamics in the borrower's market and their possible impact on the institution.

Our expectation is that the annual management discussion and analysis would be more extensive than that presented on a quarterly basis.

4. An annual "no default and covenant compliance" certificate, including relevant calculations, that evidences compliance with all financial covenants. If some tests are performed more often than annually, similar certificates should be provided for the relevant periods.

5. The growth in complexity of debt obligations and recent disruptions in the banking and financial sectors highlighted the limitations of traditional disclosure in describing the valuation and risk characteristics of hospitals' debt instruments and swap positions. These limitations are an analytical concern for both primary and continuing disclosure. To address this, the NFMA recommends that borrowers enhance their disclosure regarding debt, liquidity, investment asset allocation and swaps by releasing standardized and more detailed information, both initially and on an ongoing basis. Information provided at the time that debt or swap positions are established and on a quarterly basis should include the elements listed in Appendices A1, A2 and A3 (for variable rate debt, liquidity and investment allocation) and Appendices B1 and B2 (for swaps).

6. Significant Events, i.e., any event that in the opinion of management materially impacts the organization. Such events should include, but not be limited to, the eleven items listed in the SEC Amendments to Rule 15c2-12 and should be disclosed as soon as is practical after their occurrence. Examples of such discussion include affects of recently enacted state or federal legislation, especially as they may result in changes to the regulatory and/or reimbursement environments that may positively or negatively impact the borrower.

7. Operating information for the period (i.e., quarterly and annual to be available within 45 days after the end of such period) with comparable information for the prior period and a clear definition of data. If applicable, statistical information should be presented separately for each facility or operating division of the overall reporting entity. In particular, we request disclosure of the following data:

- Patient volume, including inpatient and outpatient activity;
- Patient days, including detail regarding acute care, specialty care and long-term care;
- Licensed and staffed beds, with detail regarding acute care, specialty care and long-term care;
- Emergency room visits, net of inpatient admissions;
- Outpatient surgeries and outpatient revenue as a percent of total revenue; and
- Payor mix presented as a percent of net revenue.

8. A discussion of the medical staff and board discussion should include composition and size of the medical staff; the number, specialty and cost of employed physicians; and changes in top ten admitters. Any material changes to the structure of the Board and governance should be presented, along with information on any large medical group practices.

NFMA constituent societies, individual members, or their firms may not agree with all provisions in these Recommended Best Practices. The NFMA is not a regulatory agency and compliance with the practices advocated herein does not constitute a "safe harbor" from any State or Federal rules and regulations. Nothing in this paper is to be construed as an offer or recommendation to buy or sell any security or class of securities.

Appendix A - 1 Variable Rate Debt Up Front Disclosure

Information to be Included in Original Offering Document(s) for Fixed or Variable Rate Debt Issues

Series				
Maturity Date				
Principal Amortization (level DS, level princ, bullet, etc)				
Interest Rate Type (Auction/VRDO/Index, etc.)				
Mode				
Principal Amount Outstanding				
Name Of Letter of Credit or Liquidity Support Provider/Other Credit Enhancement				
Expiration Date				
Renewal Terms				
Events of Default:				
Default Rate of Interest:				
Reimbursement Agreement Covenants, Including Frequency of Testing:				
Termination Events:				
Term out provisions:				

Appendix A - 2 Variable Rate Debt Ongoing Disclosure

The following information should be provided for each variable rate debt issue outstanding

Series				
Liquidity Support Changes				
Mode Changes				
Bank Bond Status				
Most Recent Rate Re-Set				
Termination Event Occurrence				
Remarketing Agent Changes				

Appendix A- 3 Recommended Initial and Periodic Disclosure

Unrestricted Cash and Investments / Liquidity Composition

Valuation Date:	

Asset Category	**Settlement / Availability**						
	Same Day	**One Week**	**One Month**	**Three Months**	**One Year**	**> One Year**	**Total**
Cash & Money Market Funds							
Overnight Repurchase Agreements							
US Treasuries and "AAA" US Agency <= 3 years							
US Treasuries and "AAA" US Agency > 3 years							
Other Fixed Income "AA-/Aa3" or higher							
All Other Fixed Income							
Traditional Equity							
Alternative Investments							
Private Equity							
Hedge Funds							
Real Estate							
Other Alternatives							
Total Unrestricted Cash & Investments							
Other Liquidity							

Appendix B

NFMA Disclosure Guidelines

Hospital Swap Transaction

Supplemental Disclosure Information

The following templates derive from the NFMA's *Recommended Best Practices in Disclosure for Hospital Debt Transactions*. This constitutes a basic summary of intended annual and quarterly swap disclosure for Not-for-Profit Hospitals. This template is being provided to enable issuers, investment bankers, bond attorneys, financial advisors and consultants to more easily assemble data on a Hospital's swap portfolio.

Appendix B-1 NFMA Disclosure Guidelines

	Hospital Swap Transaction Annual Disclosure Information				
	Trade 1	Trade 2	Trade 3	Trade 4	Trade 5
Counterparty Name					
Trade Type					
Trade Rationale					
Swap Advisor, (y/n); if used, name of advisor					
Competitive or Negotiated bid process					
Swap Management Policy (y/n), if so, please provide					
Swap Incurrence Test					
Bond Series, (y/n), if yes, please identify series					
Notional ($000)					
Final Maturity					
Mark-to-Market (value / frequency of reporting)					
Cross Default Threshold Amount for Hospital					
Cross Default Threshold Amount for Counterparty					
Additional Termination Events (ATE) for Hospital					
Additional Termination Events (ATE) for Counterparty					
Security & Source of Repayment					
Independent Amount (y/n)					
Ability to Post Collateral (y/n)					
Collateral Restrictions (y/n)					
Collateral Requirements (CSA) for Hospital					
Collateral Requirements (CSA) for Counterparty					
Swap Insurance (y/n), if yes, please identify Insurer					
If insured, please list Insurer Events					

Appendix B-2 NFMA Disclosure Guidelines

If additional swaps have been executed or terminated since the most recent annual disclosure statement, please provide the following information:

Hospital Swap Transaction

Quarterly Disclosure Information

	Trade 1	Trade 2	Trade 3	Trade 4	Trade 5
Counterparty Name					
Trade Type					
Trade Rationale					
Bond Series, (y/n), if yes, please identify series					
Notional Amount ($000)					
Final Maturity					
Mark-to-Market (as of Quarter-end)					
Aggregate Mark-to-Market Value (as of Quarter End)					

APPENDIX B - 2 NFMA DISCLOSURE GUIDELINES

	Hospital Swap Transaction Supplemental Disclosure Information
Counterparty Name	Amalgamated Brokers, LLC
Trade Type	Swap-to-Fixed
Trade Rationale	Lock in favorable rates in relation to a variable rate issuance
Swap Advisor, (y/n); if used, name of advisor	Yes, XYZ Swap Advisors
Competitive or Negotiated bid process	Negotiated
Swap Management Policy (y/n), if so, please provide	Yes (attached)
Swap Incurrence Test	Yes, each time a new swap is entered into, the hospital or obligated group shall not have less than 125 days cash on hand assuming a 200 bp movement in rates
Bond Series, (y/n), if yes, please identify series	Series 2008A Revenue Bonds
Notional Amount ($000)	$150 million
Final Maturity	50740
Mark-to-Market (value / frequency of reporting)	current MtM: $8.5 million, valued daily, reported quarterly
Cross Default Threshold Amount for Hospital	$25.0 million
Cross Default Threshold Amount for Counterparty	3% of shareholders' equity
Additional Termination Events (ATE) for Hospital	Credit rating falls below Baa3, BBB-, or BBB-
Additional Termination Events (ATE) for Counterparty	Credit rating falls below A3, A-, or A- and Investment Bank / Broker-Dealer fails to transfer to an acceptable counterparty within 30
Security & Source of Repayment	Regularly scheduled swap payments are on parity with bond payments, termination payments are subordinate to all secured debt
Independent Amount (y/n)	$1.0 million
Ability to Post Collateral (y/n)	y
Collateral Restrictions (y/n)	n
Collateral Requirements (CSA) for Hospital	Aa3/AA- and above: $40 million, A1/A+ through A3/A-: $20 million, Baa1/BBB+: $10 million, Baa2/BBB and below: $0
Collateral Requirements (CSA) for Counterparty	Aa3/AA- and above: $40 million, A1/A+ through A3/A-: $20 million, Baa1/BBB+: $10 million, Baa2/BBB and below: $0
Swap Insurance (y/n), if yes, please identify Insurer	yes, Insurer
If insured, please list Insurer Events	Insurer is downgraded below A- or A3; the Insurer is in conservation, liquidation, or receivership; the Insurer fails to maintain a credit rating of AAA or Aaa and fails to pay debt or a policy obligation in excess of $20 million

APPENDIX B - 3 NFMA DISCLOSURE GUIDELINES

Hospital Swap Transaction

Supplemental Disclosure Information

Counterparty Name	The entity the Hospital entered into a transaction with, *e.g.,* a bank or broker dealer
Trade Type	The type of swap the hospital entered into, *e.g.,* traditional swap-to fixed, basis swap, or swaption
Trade Rationale	The Hospital's basis for entering into the transaction, *e.g.,* lock in favorable rates or manage cash flows
Swap Advisor	Independent service provider that works with or acts on behalf of the swap counterparty
Competitive or Negotiated	Process in which the derivative transaction was entered into
Bond Series, (y/n), if yes, please identify series	The bond series that the swap is related to
Notional Amount ($000)	The actual dollar amount associated with the swap transaction
Final Maturity	The end-date of the swap, typically in line with the final maturity of the related bonds
Mark-to-Market (value / frequency of reporting)	The value of a swap based on current market parameters and environment; typically valued on a daily basis and reported quarterly
Swap Management Policy (y/n) if yes, please provide a copy	A formal policy adopted by a Hospital's management team that outlines specific guidelines for entering into and managing swaps
Swap Incurrence Test (y/n) if yes, please identify	A procedure that outlines specific requirements that a Hospital must satisfy prior to entering into a swap
Cross Default Threshold Amount	A specified value in an ISDA Schedule that would result in a cross-default if the hospital failed to make a payment in excess of the specified value; in aggregate or on a stand-alone basis
Additional Termination Events (ATE)	An event specified in an ISDA Schedule or Confirmation that if triggered, could result in a termination of the swap; typically based on an entity's long-term, unsecured credit rating
Security & Source of Repayment for swap payments	The structure and priority of payments related to securing swaps; regularly scheduled swap payments are typically on parity with the principal and interest of the related bonds, termination payments are generally subordinate
Independent Amount (y/n)	An amount that an entity may be required to pledge separate and above any collateral requirements. Independent Amounts are typically required at the BBB- or Baa3 credit rating level and are generally $1.0 million
Ability to Post Collateral (y/n)	An entity's legal ability to pledge collateral to secure a swap. This is typically verified by bond counsel
Collateral Restrictions (y/n)	Any provisions that may limit a Hospital's ability to post collateral
Collateral Requirements (CSA)	Generally outlined in a Collateral Support Annex (CSA); identifies the threshold requirements and are typically in relation to an entity's credit ratings
Swap Insurance (y/n), if yes, please identify Insurer	An insurance policy that typically covers regularly scheduled swap payments; the policy may cover termination payments as well
If insured, please list Insurer Events (Please note, swaps that are insured are generally governed by the Insurer Events/Provisions, upon the occurrence of an Insurer Event, the hospital would be required to remedy the situation. Standard remedies include the following: i. Post collateral pursuant to a CSA, ii. Provide another credit support provider, or iii. Transfer swap to a party acceptable to the counterparty)	Specific terms and conditions that relate to the actual Insurer. Typical terms include the following: the Insurer is downgraded below A- or A3; the Insurer is in conservation, liquidation, or receivership; the Insurer fails to maintain a credit rating of AAA or Aaa and fails to pay debt or a policy obligation in excess of $20 million