UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF KENTUCKY
BOWLING GREEN DIVISION

IN RE:	)	
	)	
ADAIR COUNTY HOSPITAL DISTRICT	)	CHAPTER 9
	)	
Debtor	)	CASE NO. 13-10939
	)	
	)	
IN RE:	)	
	)	
ADAIR COUNTY PUBLIC HOSPITAL DISTRICT CORPORATION	)	CHAPTER 9
	)	
Debtor	)	CASE NO. 13-10940
	)	

~~SECOND~~THIRD AMENDED JOINT DISCLOSURE STATEMENT TO PLAN FOR ADJUSTMENT OF DEBTS DATED ~~OCTOBER 23~~DECEMBER 17, 2015

THE DEBTORS BELIEVE THAT THE PLAN IS FEASIBLE AND IN THE BEST INTEREST OF CREDITORS. THE DEBTORS RECOMMEND THAT YOU CAST YOUR BALLOT IN FAVOR OF THE PLAN.

This Disclosure Statement to the Plan for Adjustment of Debts, as modified, supplemented and amended (collectively, the **"Disclosure Statement"**), is being furnished by Adair County Hospital District (the **"District"**) and the Adair County Public Hospital District Corporation (the **"Corporation"**) to their creditors pursuant to Sections 901 and 1125 of Title 11 of the United States Code (the **"Bankruptcy Code"**) in connection with a solicitation by the Debtor of Ballots for the acceptance of the Plan for Adjustment of Debts, filed by the District and the Corporation (each a **"Debtor"** and collectively, the **"Debtors"**), as modified, supplemented and amended (collectively, the **"Plan"**). Capitalized terms are defined in the text of this Disclosure Statement, and if not otherwise defined herein, shall have the meaning ascribed to them in the Plan or the Bankruptcy Code.

On July 31, 2013, the Debtors filed voluntary petitions for relief under Chapter 9 of the Bankruptcy Code (each a **"Case"** and collectively, the **"Cases"**). The Chapter 9 Cases are currently pending before the United States Bankruptcy Court for the Western District of Kentucky (the **"Bankruptcy Court"**). On ~~October 23~~December 17, 2015, the Debtors filed their Plan with this Disclosure Statement.

The Debtors are the proponent of the Plan, a copy of which is attached to this Disclosure Statement as Exhibit A. As described more fully herein, the Debtors believe that the Plan provides the greatest and earliest possible recoveries to holders of claims, that acceptance of the Plan is in the best interests of all parties, and that any alternative restructuring would result in

delay, expense, uncertainty, and ultimately, smaller or no distributions to creditors. Accordingly, the Debtors urge that you cast your ballot in favor of the Plan.

CLAIMANTS SHOULD READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY BEFORE VOTING ON THE PLAN. NO SOLICITATION OF VOTES FROM CREDITORS WITH RESPECT TO THE PLAN MAY BE MADE EXCEPT PURSUANT TO THIS DISCLOSURE STATEMENT. NO PERSON HAS BEEN AUTHORIZED TO USE ANY INFORMATION CONCERNING THE DEBTORS OR THEIR BUSINESS IN CONNECTION WITH THE SOLICITING OF VOTES FROM THE CLAIMANTS WITH RESPECT TO THE PLAN OTHER THAN THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. CLAIMANTS SHOULD NOT RELY ON ANY INFORMATION RELATING TO THE DEBTORS AND THEIR BUSINESS OTHER THAN THAT CONTAINED IN THE PLAN, THIS DISCLOSURE STATEMENT AND THE EXHIBITS ATTACHED HERETO AND THERETO.

After carefully reviewing the Plan, this Disclosure Statement and all other plan documents, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the enclosed Ballot.

Holders of Claims are instructed to complete all required information on the ballot, execute the Ballot, and return the completed Ballot to

If by Regular U.S. Mail:	Seiller Waterman LLC Attn: Rebecca Swann 462 South Fourth Street, 22nd Fl. Louisville, Kentucky 40202
If by Facsimile:	(502) 371-9253
If by Electronic Mail:	swann@derbycitylaw.com Subject: 13-10939 Adair County Hospital District ballot or 13-10940 Adair County Public Hospital District Corporation ballot

Your ballot must be received by the Voting Deadline (as described in the Order Conditionally Approving the Disclosure Statement or other Bankruptcy Court Order, and in the absence of such order, seven (7) days prior to the first date set for the hearing on the confirmation of the Plan) or it will not be counted. Any failure to follow the voting instructions included with the relevant Ballot may disqualify that Ballot and the corresponding vote.

ANY BALLOTS RECEIVED AFTER THE VOTING DEADLINE WILL NOT BE COUNTED AND SHALL BE DEEMED INVALID AND INEFFECTIVE (UNLESS OTHERWISE ALLOWED UNDER THE SOLICITATION PROCEDURES ORDER OR OTHER ORDER OF THE BANKRUPTCY COURT).

THE PURPOSE OF THIS DISCLOSURE STATEMENT IS TO ENABLE THOSE PERSONS WHOSE CLAIMS AGAINST THE DEBTORS ARE IMPAIRED UNDER THE PLAN TO

MAKE AN INFORMED DECISION WITH RESPECT TO THE PLAN BEFORE EXERCISING THEIR VOTING RIGHTS TO ACCEPT OR REJECT THE PLAN IN ACCORDANCE WITH THE BANKRUPTCY CODE. ON THE APPROVAL DATE, AFTER NOTICE AND A HEARING, THIS DISCLOSURE STATEMENT WAS APPROVED BY THE BANKRUPTCY COURT AS CONTAINING INFORMATION OF A KIND AND IN SUFFICIENT DETAIL ADEQUATE TO ENABLE PERSONS WHOSE VOTES ARE BEING SOLICITED TO MAKE AN INFORMED JUDGMENT WITH RESPECT TO ACCEPTANCE OR REJECTION OF THE PLAN. A COPY OF THE ORDER APPROVING THE DISCLOSURE STATEMENT IS ENCLOSED HEREWITH. THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE EITHER A GUARANTEE OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN OR AN ENDORSEMENT OF ANY OF THE REPRESENTATIONS CONTAINED IN THE DISCLOSURE STATEMENT OR THE PLAN, NOR DOES IT CONSTITUTE AN ENDORSEMENT OF THE PLAN.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED IN THIS DISCLOSURE STATEMENT. THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT, UNDER ANY CIRCUMSTANCES, IMPLY OR CREATE AN IMPLICATION THAT NO CHANGE HAS OCCURRED IN THE FACTS SET FORTH IN THIS DISCLOSURE STATEMENT SINCE THE DATE OF THIS DISCLOSURE STATEMENT OR SUCH OTHER SPECIFIED DATE.

THE DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF, OR STIPULATION TO, ANY FACT OR LIABILITY, OR A WAIVER OF ANY RIGHTS, BUT RATHER AS STATEMENTS MADE IN THE CONTEXT OF SETTLEMENT NEGOTIATIONS. THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY ADVERSARY PROCEEDING OR CONTESTED MATTER AGAINST THE DEBTORS OR ANY OTHER PARTY, NOR SHALL IT BE CONSTRUED TO BE ADVICE ON THE TAX, SECURITIES, OR OTHER LEGAL EFFECTS OF THE PLAN AS TO ANY INTERESTED PARTY.

AS SET FORTH ELSEWHERE IN THIS DISCLOSURE STATEMENT, THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN COMPILED BY THE DEBTORS AND THEIR ADVISORS FROM VARIOUS SOURCES AND IS BELIEVED TO BE MATERIALLY RELIABLE. HOWEVER, SUCH INFORMATION HAS NOT BEEN INDEPENDENTLY AUDITED FOR INCLUSION IN THIS DISCLOSURE STATEMENT. THEREFORE, THE DEBTORS ARE UNABLE TO WARRANT OR TO REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY OR OMISSION, ALTHOUGH EVERY REASONABLE EFFORT HAS BEEN MADE TO BE MATERIALLY ACCURATE. CREDITORS ARE URGED TO REVIEW THE PLAN AND ALL PLAN DOCUMENTS IN FULL PRIOR TO VOTING ON THE PLAN TO ENSURE A COMPLETE UNDERSTANDING OF THE PLAN AND THIS DISCLOSURE STATEMENT.

THIS DISCLOSURE STATEMENT IS INTENDED SOLELY FOR THE USE OF

CREDITORS OF THE DEBTORS TO ENABLE SUCH CREDITORS TO MAKE AN INFORMED DECISION ABOUT THE PLAN.

I. INTRODUCTION.

The District, a public agency, was created in 1968 by act of the Fiscal Court of Adair County, Kentucky to provide hospital facilities to the residents of Adair County (the **"County"**) pursuant to KRS 216.310 *et seq.*, which permits a county to form a hospital district "in order to provide a broader basis for local support of hospitals and related health facilities." KRS 216.310. The District operates, controls, and manages all matters concerning the County's health care functions. The Adair County Fiscal Court appoints the members of the Board of Trustees of the District.

The District is the lessee of a hospital building located in the city of Columbia, Kentucky on 901 Westlake Dr., Columbia, KY 42728 (the **"Hospital"**). The Hospital is licensed for 74 total beds, of which 25 are dedicated to behavioral health. The average daily census of the Hospital for fiscal year 2014 was 8.71 patients. Construction on the Hospital began in 1979. The Hospital has 49 licensed acute beds, which includes the telemetry unit, 25 licensed behavioral health beds, 3 operating rooms, and 6 patient beds in the Trauma room with 2 triage rooms in the emergency area. The District leases the Hospital from the Corporation, a non-profit corporation incorporated on December 30, 1976, by the District. The Hospital provides general medical and surgical care in inpatient, outpatient, and emergency room service areas. The District and the Corporation also own and operate four rural health clinics: two in Columbia, Kentucky, one in Russell Springs, Kentucky, and one in Edmonton, Kentucky. The Hospital and clinics employ 3 full-time physicians and 2 part-time physicians on active medical staff, as well as 2 part-time APRNs (nurse practitioners) and 6 full-time APRNs.

The property on which the facilities exist and the physical facilities are owned by the Corporation. As described in greater detail below, the Debtors have been unable to pay their debts as they become due. Years of excessive borrowing to fund poor management, unresolved and unmanageable recoupments due to Medicaid and Medicare, erosion of patient confidence due to an aging and poorly maintained facility, and the shifting healthcare reimbursement environment all combined to exceed the capacity of the Debtors to meet their financial obligations. Despite the best efforts of a completely new Board of Trustees and administration, the determination was made in the summer of 2013 that the only way to continue critical emergency and other medical services to the community would be to file for protection under Chapter 9 of the Bankruptcy Code.

Prior to the petition date, the Debtors had been able to stay in business only because they had stopped paying long-term debt and received a cash infusion from the Adair County Fiscal Court to the Corporation which was in the form of a loan to be re-paid to the County. Based upon those factors, in an effort to provide a revenue stream for satisfying the Debtors' financial obligations, on July 20, 2012, the Board of Trustees of the District adopted a Resolution for a Hospital District Tax, setting an ad valorem tax rate of 3.7 cents per $100 of assessed property value and providing for the implementation and collection of the tax (the **"Hospital District Tax"**). A group of Adair County taxpayers subsequently filed a recall petition pursuant to KRS 132.017 challenging the 3.7 cents per $100 tax rate. The Farmers National Bank of Danville (**"Farmers Bank"**) has alleged that the District and its board negligently failed to respond to the petition which permitted the recall election to take place. As a result, at the time of the petition, the

Hospital District Tax had not been billed or collected until the question of whether to recall the Hospital District Tax rate could be submitted to the voters at the next general election, which would have been in November of 2014.

By August 2012, the District was in default of its loan from Farmers Bank for the June, July, and August 2012 payments. The District was able to cure the default only through a loan from the County. The District then defaulted on the November 2012 payment to Farmers Bank. On December 12, 2012, Farmers Bank filed a petition for a writ of mandamus in the Circuit Court of Adair County, Kentucky, Case No. 12-CI-00269, in which Farmers Bank sought an order of the court directing the District and its trustees to institute an ad valorem tax rate of 10.0 cents per $100 of assessed property value, the maximum the District believes is permitted by statute. Farmers Bank argues that this amount is not the maximum amount permitted by statute, but instead that the tax rate may be higher. The District defended this action, and the court had not issued any final rulings at the time of the petition. On October 3, 2013, the District and Farmers Bank entered into an agreed order to institute the tax at 10.0 cents per $100 of assessed property value to generate the funds needed to continue operations and fund the Plan.

In addition to Farmers Bank, to whom the Debtors combined owe approximately $13 million, the Debtors have other liabilities for ongoing operations totaling approximately $9 million. The Debtors do not have the ability to service their debts as they become due.

As part of the plan of adjustment contemplated herein, the Debtors filed their voluntary petitions under Chapter 9 of the Bankruptcy Code in the Bankruptcy Court. Pursuant to the Bankruptcy Court's Commencement Order, the Debtors published notice of the filing of its Chapter 9 petition and request for the entry of an order for relief thereunder in the Louisville *Courier-Journal*, the Lexington *Herald-Leader*, and the Adair County *Adair Progress,* and in addition, mailed notice to all known creditors and parties in interest.

The Debtors are sending this Disclosure Statement to all creditors and parties in interest to request their approval of a plan of debt adjustment of the Debtors' obligations. The Debtors have proposed the Plan, which the Debtors believe is in the best interests of the Debtors' creditors.

A. Explanation of Chapter 9 of the Bankruptcy Code.

Chapter 9 of the Bankruptcy Code permits a municipality (as such term is defined in the Bankruptcy Code) to adjust debts owed to creditors through a plan of adjustment while permitting the municipality to continue to operate. Section 904 of the Bankruptcy Code provides that a municipal debtor may continue to operate the debtor's business. The Debtors have continued to manage and operate the Hospital since the filing of the Case.

The filing of a Chapter 9 petition triggers the automatic stay provisions of the Bankruptcy Code. Sections 922 and 362 of the Bankruptcy Code provide for an automatic stay of all attempts to collect pre-petition claims from the Chapter 9 debtor or otherwise interfere with its property or business. Except as otherwise ordered by the Bankruptcy Court, the automatic stay remains in full force and effect in a Chapter 9 case until the confirmation of a plan of adjustment.

Formulation of a plan of adjustment is the principal purpose of a Chapter 9 case. The plan is the vehicle for satisfying the holders of claims against the debtor.

B. Filing Proofs of Claim.

The Debtors filed Lists of Creditors as required by Section 924 of the Bankruptcy Code. A Proof of Claim is deemed filed for any Claim that appears in the List of Creditors that was filed in this case, except a Claim that is scheduled as disputed, contingent, or unliquidated as to amount. If a creditor agrees with the amount of the Claim as listed by the Debtors and such Claim was not listed as disputed, contingent, or unliquidated, the holder of that Claim need not have filed a Proof of Claim.

However, if (i) the Debtors did not list a holder's Claim, (ii) the Debtors listed such holder's Claim as disputed, contingent, or unliquidated, or (iii) the amount the Debtors listed for the holder's Claim varies from the amount claimed by the holder of such Claim, the holder of such Claim must have filed a Proof of Claim in the amount of such Claim. The Bankruptcy Court generally will recognize and allow a Proof of Claim only if such Proof of Claim is timely filed and is not objected to by the Debtor or any party in interest. If an objection to a Proof of Claim is filed, after notice and hearing, the Bankruptcy Court will determine to what extent, if any, such Claim will be allowed. The List of Creditors is on file with the Clerk of the Bankruptcy Court and is available for inspection during regular court hours or via the PACER system, which may be accessed on a subscription basis at the following internet address: https://ecf.kywb.uscourts.gov/.

The Bankruptcy Court established October 29, 2013 (the **"Bar Date"**), as the last date for filing proofs of claim by separate order [Doc. 37] (the **"Bar Date Order"**), and any Claim filed after that date is subject to disallowance for untimely filing, unless otherwise ordered by the Bankruptcy Court.

C. Representations.

NO REPRESENTATIONS CONCERNING THE DEBTORS (PARTICULARLY AS TO THEIR FUTURE OPERATIONS, VALUE OF ITS ASSETS, OR THE VALUE OF ANY OTHER ASSETS TO BE CONSIDERED UNDER THE PLAN) ARE AUTHORIZED BY THE DEBTORS OTHER THAN THOSE SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS MADE TO SECURE YOUR ACCEPTANCE, WHICH ARE OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT, SHOULD NOT BE RELIED UPON IN ARRIVING AT YOUR DECISION WHETHER TO VOTE FOR OR AGAINST THE PLAN. THE DEBTORS ARE NOT MAKING ANY REPRESENTATIONS WHATSOEVER AS TO ANY TAX CONSEQUENCES TO SPECIFIC CREDITORS OR HOLDERS OF THE DEBTORS' DEBT RESULTING FROM THE PLAN.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS NOT BEEN INDEPENDENTLY AUDITED FOR INCLUSION IN THIS DISCLOSURE STATEMENT. THE DEBTORS ARE UNABLE TO WARRANT OR TO REPRESENT THAT

THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY OR OMISSION, ALTHOUGH EVERY REASONABLE EFFORT HAS BEEN MADE TO BE ACCURATE. CREDITORS ARE URGED TO REVIEW THE PLAN AND ALL PLAN DOCUMENTS IN FULL PRIOR TO VOTING ON THE PLAN TO ENSURE A COMPLETE UNDERSTANDING OF THE PLAN AND THIS DISCLOSURE STATEMENT.

THIS DISCLOSURE STATEMENT IS INTENDED SOLELY FOR THE USE OF CREDITORS OF THE DEBTORS TO ENABLE SUCH CREDITORS TO MAKE AN INFORMED DECISION ABOUT THE PLAN.

IF ANY IMPAIRED CLASS DOES NOT VOTE TO ACCEPT THE PLAN, THE DEBTOR INTENDS, PURSUANT TO SECTIONS 901(a) AND 943 OF THE BANKRUPTCY CODE, TO SEEK CONFIRMATION UNDER THE PROVISIONS OF SECTION 1129(b) OF THE BANKRUPTCY CODE AND HEREBY GIVES NOTICE OF SUCH INTENT.

D. Purpose of the Disclosure Statement.

The Bankruptcy Code generally requires that the proponent of a plan of adjustment prepare and file with the Bankruptcy Court a "disclosure statement" that provides information that would enable a typical holder of claims in a class impaired under that plan to make an informed judgment with respect to the plan. This Disclosure Statement provides such information as to the Plan.

The Debtors are furnishing this Disclosure Statement to Classes of Impaired creditors pursuant to the requirements of Sections 901(a) and 1125 of the Bankruptcy Code and Bankruptcy Rule 3017 thereunder, for the purpose of soliciting Ballots for the acceptance of the Plan under Chapter 9 of the Bankruptcy Code. **A successful reorganization under the Bankruptcy Code depends upon the receipt of sufficient numbers of votes in favor of the Plan or application of Bankruptcy Code Sections 901(a), 943 and 1129(b). Your vote, therefore, is important**.

The Disclosure Statement describes various transactions contemplated under the Plan as well as certain transaction or settlements embodied in the Plan.

This Disclosure Statement serves as notice to creditors and parties in interest of all such transactions, contracts or settlements as allowed or required by the Bankruptcy Code or Bankruptcy or Local Rules including Rule 9019 of the Federal Rules of Bankruptcy Procedure. The time fixed by the Bankruptcy Court for the filing of objections to Confirmation shall likewise be deemed to be the time fixed for the filing of any objections to the foregoing transactions, contracts or settlements, even if such transactions, contracts or settlements will be documented or consummated after Confirmation.

If the Debtors receive Ballots accepting the Plan from at least two-thirds in amount, and more than one-half in number, of those voting in at least one Class of Impaired creditors voting on the Plan, the Debtors intend to request confirmation of the Plan. Under the Bankruptcy Code, in order for the Plan to be confirmed, the Plan must be accepted by at least one Impaired Class of

Claims entitled to vote thereon.

Under the Bankruptcy Code, after the commencement of a bankruptcy case, the solicitation of acceptances of a plan of adjustment must be accompanied by disclosure materials containing information of a kind and in sufficient detail to enable solicited creditors to make informed judgments about the plan and the acceptance or rejection thereof. On the Approval Date, the Bankruptcy Court determined that this Disclosure Statement contains information that is in compliance with the "adequate information" requirement of Section 1125(a) of the Bankruptcy Code, as indicated by its Order Approving Disclosure Statement enclosed herewith.

E. Legally Binding Effect of Plan with Respect to All Creditors.

If confirmed, the provisions of the Plan will discharge the Debtors and bind all creditors and the Debtors to the fullest extent permitted by the Bankruptcy Code, including Section 944 and, without limiting the foregoing, will (1) bind all creditors, whether or not they accept the Plan, and (2) discharge the Debtors from all debts that arose before the Effective Date, except as otherwise provided in the Plan.

F. Voting Requirements.

The Classes of Claims that are Impaired under the Plan and that are not deemed to have rejected the Plan, are entitled to vote to accept or reject the Plan. An Impaired Class of Claims will be determined to have accepted the Plan if the holders of Allowed Claims in the Class casting votes in favor of the Plan (1) hold at least two-thirds of the allowed amount of the Allowed Claims of the holders of such class who actually vote, and (2) constitute more than one- half in number of holders of the Allowed Claims in such class voting on the Plan. If a Ballot is submitted without an acceptance or rejection of the Plan the Debtors reserve the right to ask the Bankruptcy Court to either (i) disqualify the Ballot or (ii) count the Ballot as an acceptance of the Plan. If a Class of Impaired Claims does not receive or retain any property or interests in property under the Plan, such class is deemed to have rejected the Plan and the votes of creditors in such Class need not be solicited.

G. Summary of Entities Entitled to Vote on the Plan and of Certain Requirements Necessary for Confirmation of the Plan.

The Debtors will request Confirmation of the Plan at the Confirmation hearing to be scheduled by the Bankruptcy Court. Holders of Claims in Classes 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, and 20 (collectively, the **"Voting Classes"**) are entitled to vote on the Plan, because the Claims in each such class are Impaired and are not deemed to have rejected the Plan.

II. HISTORY OF THE DEBTORS.

A. History and Background of the Debtors.

The District is the lessee of the Hospital, located in the city of Columbia, Kentucky on 901 Westlake Dr., Columbia, KY 42728. The Hospital is licensed for 74 total beds, of which 25 are dedicated to behavioral health. The Hospital has 49 licensed acute beds which includes the telemetry unit, 25 licensed behavioral health beds, 3 operating rooms with only 2 functioning, 5 stretchers and 2 triage rooms in the emergency rooms. The District leases the Hospital from the Corporation. The Hospital provides general medical and surgical care in inpatient, outpatient, and emergency room service areas.

B. Financial Issues Facing the Debtors.

For the fiscal year ended June 30, 2009, the Hospital saw net operating income of $374,600, but a decrease in cash and equivalents from $4,767,662 to $2,424,857. See 2009 Audited Financial Statements attached hereto as Exhibit B. In this audit, total assets were reported as $16,234,052, and liabilities of $15,513,317. These amounts were significantly written down by approximately $10,150,000 in the fiscal year ending June 30, 2010, at which time new management and auditors for the Hospital discovered that assets had been overstated since beginning in 2004. The assets were written down to $7,348,631 for year end June 30, 2010, while liabilities increased to $17,835,245, an accounting event which instantly made the Hospital insolvent from a balance sheet standard. The June 30, 2010 and 2011 audit report is attached hereto as Exhibit C. Significant events included reversing an approximately $3,500,000 receivable from Medicare and Medicaid and booking a $2,700,000 liability for overpayments. The change was due to the tentative reimbursement schedules used by the Hospital, which were adjusted based on actual cost reports submitted annually. The Medicare and Medicaid liabilities have continued to increase since that time as the state and federal governments review and audit the Hospital's cost reports. In addition to the restatement of income and expenses, the Hospital suffered an operating loss of $1,608,706. Including non-operating expenses, the loss was $2,198,789 for the fiscal year ending June 30, 2011. At the time, the auditor recognized: "The Hospital has experienced significant financial challenges due to a significant reduction in patient services…. The Hospital has a significant working capital deficit…. These matters raise substantial doubt about the Hospital's ability to continue as a going concern." Exhibit C at 24.

In fiscal year ending June 30, 2012, the operating loss increased to $2,228,423, and net loss increased to $3,135,532. These continuing losses eroded the Hospital's cash position down to only $456,840. The auditors reiterated their previous concerns regarding the Hospital's ability to operate as a going concern. In this time period, the County loaned the Hospital $1,500,000 to enable the Hospital to continue operations and to acquire an electronic medical records system that would enable the Hospital to qualify for subsidies under the American Recovery and Reinvestment Act of 2009. The fiscal year 2012 audit is attached hereto as Exhibit D.

Accordingly, without the County's funding and based upon its historical operating losses, the Debtors have been unable to pay its bills as they become due. On December 12, 2012, after the District was unable to pay its note to Farmers Bank, Farmers Bank sued the District to attempt to require the District to impose upon the County the maximum tax rate permitted by statute.

For the foregoing reasons, the Debtors concluded that filing a Chapter 9 petition was the only available remedy to avoid litigation and collection actions against the Debtors, while allowing the Debtors to preserve their business operations and continue providing uninterrupted healthcare services to their patients.

III. FINANCIAL INFORMATION.

The Hospital has been unable to collect enough operating revenues to pay operating costs each year. The fiscal year 2013 audit is attached hereto as Exhibit E. The fiscal year 2014 audit is attached hereto as Exhibit F. Copies of the Hospital's unaudited consolidated financial statements for fiscal year 2015 are attached hereto as Exhibit G. Copies of the Hospital's unaudited consolidated financial statements for the period ending August 31, 2015, are attached hereto as Exhibit H.

The recent operations of the Debtors can be summarized below, as stated and restated in the fiscal year 2014 audit:

Fiscal Year	**Assets**	**Liabilities**	**Net Operating Income**	**Net Income**
2012	$5,317,464	$22,260,822	($2,054,215)	($2,961,324)
2013	$5,419,904	$23,703,468	($1,097,992)	($1,340,206)
2014	$7,283,393	$26,187,598	($510,395)	($620,641)
2015 (unaudited) [1]	$8,631,144	$27,462,423	$92,345	$72,926
2016 (July-~~August~~October) (unaudited)[2]	$~~7,808,050~~8,513,912	$27,~~085,942~~777,888	($~~363,880~~649,393)	($~~466,504~~452,591)

All years include an interest expense that has been accrued on the Hospital's books but not paid. The Debtors see significant operating and non-operating receipts in the fourth quarter of the calendar year (the second quarter of the fiscal year), which will increase net income.

[1] The unaudited amounts for Fiscal Year 2015 and Fiscal Year-to-date 2016 Net Operating Income and Net Income amounts have been restated from the financials attached hereto as Exhibits F and G. Interest expense and funds received for Meaningful Use have been grouped in the same manner as the prior years' Audited Financial Statements to reflect consistency. In Fiscal Year 2015, Interest Expense of $773,291 has been moved to non-operating income and meaningful use income of $760,366 has been grouped as ~~an~~ operating revenue.

[2] In Fiscal Year-to-date 2016, interest expense of $~~122,982~~248,427 has been moved to non-operating income and meaningful use income of $63,750 has been grouped as ~~an~~ operating revenue.

IV. THE CHAPTER 9 CASE.

A. Eligibility of Debtors to File Chapter 9 Case.

Section 109(c) of the Bankruptcy Code sets forth the statutory criteria for eligibility as a Chapter 9 debtor. The debtor must: (1) be a municipality; (2) be specifically authorized to be a Chapter 9 debtor; (3) be insolvent; (4) be willing to effect a plan to adjust its debts; and (5) also meet one of the following four requirements: (i) the debtor has obtained the agreement of creditors holding at least a majority in the amount of claims of each class that the debtor intends to impair through its plan; (ii) the debtor has negotiated in good faith but failed to obtain the agreement of creditors holding at least a majority in the amount of claims of each class that the debtor intends to impair under its plan; (iii) the debtor is unable to negotiate with its creditors because such efforts are impracticable; or (iv) the debtor reasonably believes that a creditor may attempt to obtain a preference. 11 U.S.C. § 109(c).

Section 109(c)(1) requires that the debtor filing a petition under Chapter 9 must be a municipality. A "municipality" is defined in section 101 of the Bankruptcy Code to mean "political subdivision or public agency or instrumentality of a State." 11 U.S.C. § 101(40).

While the Bankruptcy Code does not define the terms "public agency, or instrumentality of a State," a legal test to determine public agency status was established in *In re Las Vegas Monorail Co.*, 429 B.R. 770, 795 (Bankr. D. Nev. 2010), identifying the factors for consideration as "1) the extent to which the entity possesses traditional government powers or attributes; 2) the extent of control over the entity possessed by the city, state, or county; and 3) the state's classification of the entity." *Id*.

In this case, the Debtors are public agencies or instrumentality, and thus a "municipality" as defined in section 101(40) of the Bankruptcy Code. The District was created by statute in the public interest, has the power to tax, and is supported in part by public funding through the County. Furthermore, vacancies on the Board are filled by the Adair County Fiscal Court. Applying the analysis set forth in *Las Vegas Monorail*, Debtor is a public agency and thus meets the statutory requirement for "municipality" status. *See Greene County Hospital*, 59 B.R. 388, 389-90 (Bankr. S.D. Miss. 1986) (hospital a "municipality" because the hospital was subject to control by a county board of supervisors).

The Corporation was created by the District to act as an instrumentality thereof, and subject to the complete control of the Board of Trustees of the District, who also act as the board of directors of the Corporation. The Corporation issued municipal bonds to support the construction of the Hospital. As an alter-ego of the District created for financing purposes, the Corporation is entitled to sovereign immunity. *See, e.g. Comair, Inc. v. Lexington-Fayette Urban County Airport Corp.*, 295 S.W.3d 91, 102-3 (Ky. 2009) (airport corporation "little more than an alter-ego of the Board" and therefore entitled to assert the airport board's immunity). Applying the analysis set forth in *Las Vegas Monorail*, the Corporation is a public agency or instrumentality and thus meets the statutory requirement for "municipality" status.

Accordingly, the Debtors are public agencies or instrumentality of the County and are municipalities within the meaning of Section 109(c)(1).

Section 109(c)(2) also requires that a municipality be "specifically authorized, in its capacity as a municipality or by name, to be a debtor under such chapter by State law, or by a governmental officer or organization empowered by State law to authorize such entity to be a debtor under such chapter." 11 U.S.C. § 109(c)(2).

The Commonwealth of Kentucky has adopted measures which expressly enable municipalities to file bankruptcy under federal law. KRS 66.400 provides:

> Any taxing agency or instrumentality as defined in Chapter IX of the Federal Bankruptcy Act as amended by the Acts of Congress of August 16, 1937, Chapter 657, June 22, 1938, Chapter 575, March 4, 1940, Chapter 41, June 28, 1940, Chapter 438 and acts amendatory and supplementary thereto or acts extending the date of expiration thereof, as the same may be amended or extended from time to time, may file a petition for the composition of its debts and to do all things necessary to comply with the provisions of the Federal Bankruptcy Act.[3]

This statute is applicable to the Debtors as the Debtors are a "taxing agency or instrumentality" pursuant to the Bankruptcy Code, which is the current successor to the Bankruptcy Act.

Section 66.400 of the Kentucky Revised Statutes meets the "specific authorization" requirement under 11 U.S.C. § 109(c)(2) and authorizes the Debtors to bring its petition under Chapter 9. *See In re Orange County*, 183 B.R. 594 (Bankr. C.D. Cal. 1995) (holding that under § 109(c), the enabling or other legislation governing the debtor must show such specific authorization by exact, plain, and direct language). Additionally, on July 30, 2013, the Board of Trustees of the District and the Board of Directors of the Corporation adopted resolutions to authorize the commencement and prosecution of the Cases.

Section 109(c)(3) requires that the Chapter 9 petitioner be insolvent. 11 U.S.C. § 109(c)(3). Section 101 of the Bankruptcy Code provides that a municipality is insolvent when its financial condition is such that it is (i) generally not paying its debts as they become due unless such debts are the subject of a bona fide dispute; or (ii) unable to pay its debts as they become due. *Id.* § 101(32)(C). Insolvency is determined based on the debtor's financial condition as of the date the petition is filed. As described in detail above, the Debtors are unable to pay debts as they become due.

As of the Petition Date, it is clear the Debtors were and would be unable to pay their bills as they became due in the upcoming year. 11 U.S.C. § 101(32)(C). The Debtors have been operating at a loss and unable to consistently pay their debts as they become due. As of the date the Debtors filed their petitions, it was clear the Debtors were unable to "pay … bills as they become due". 11 § 101(32)(C). In short, the Debtors are insolvent within the meaning of 11 U.S.C. §§ 101(32)(C) and 109(c)(3).

[3] Additional provisions of KRS 66.400 apply to counties, which the Debtors are not.

Section 109(c)(4) requires that a Chapter 9 petitioner desire to effect a plan to adjust its debts. As demonstrated by the pre-petition efforts of the Debtors, this Disclosure Statement, and the Plan, the Debtors desire to effect a plan of adjustment with respect to their debts in these Cases.

Section 109(c)(5) requires that a Chapter 9 petitioner demonstrate that it has satisfied or is excused from certain pre-petition negotiation standards with respect to its creditors. *See* 11 U.S.C. § 109(c)(5). A debtor must satisfy one of the following four options to satisfy Section 109(c)(5):

> (1) The debtor has obtained the agreement of creditors holding at least a majority in the amount of claims of each class that the debtor intends to impair through its plan;
> (2) The debtor has negotiated in good faith but failed to obtain the agreement of creditors holding at least a majority in the amount of claims of each class that the debtor intends to impair under its plan;
> (3) The debtor is unable to negotiate with its creditors because such efforts are impracticable; or
> (4) The debtor must reasonably believe that a creditor may attempt to obtain a preference.

The Debtors' creditors consist of vendors for supplies and leases, reimbursements to employees, refunds to third-party insurance companies, taxes, and long term debt payments to banks. It was simply impractical for the Debtors to negotiate with these creditors prior to filing its petition. *See Orange County*, 183 B.R. at 607 ("the impracticality requirement may be satisfied based on the sheer number of creditors involved."); *In re Villages at Castle Rock Metro. Dist*. No. 4, 145 B.R. 76, 85 (Bankr. D. Colo. 1990) ("It certainly was impracticable for [debtor] to have included several hundred Series D bondholders in these conceptual discussions.").

Numerosity of creditors is not the only circumstance under which the impracticability requirement might be satisfied. *In re Valley Health Sys*., 383 B.R. 156, 165 (Bankr. C.D. Ca. 2008). Negotiations may be impractical where it is necessary to file a Chapter 9 case to preserve the assets of a municipality, where a delay in filing a petition to negotiate with creditors would put those assets at risk. *See Orange County*, 183 B.R. 594 at 607-08 (negotiation impractical where there was no time to enter into negotiations with its participants due to the threat of liquidation assets); *see also* 2 Collier P 109.04[3][e][iii] at 109-35 ("[W]here it is necessary to file a chapter 9 case to preserve the assets of a municipality, delaying the filing to negotiate with creditors and risking, in the process, the assets of the municipality makes such negotiations impracticable"). Even if the Debtors could negotiate with the majority of its creditors, which the Debtors cannot, the Chapter 9 filing is necessary to protect the Debtors' assets, continue its business operations, and continue providing uninterrupted healthcare services to its patients while simultaneously developing a comprehensive plan for adjustment of debts. Thus, the Debtors believe they have satisfied the third requirement: they were unable to negotiate with their creditors because such negotiation is impracticable.

Accordingly, Debtors believes they are eligible to be "debtors" under Chapter 9 of the

Bankruptcy Code. The Bankruptcy Court established September 9, 2013, as the last day to object to Debtors' eligibility to file Chapter 9 relief. There were no objections, and the Bankruptcy Court entered the Orders for Relief on September 12, 2013.

B. Notice of the Chapter 9 Case.

The Debtors filed a mailing matrix listing the names and addresses of its creditors and other parties-in-interest on August 6, 2013.

C. Events Since the Filing of the Chapter 9 Case.

Since the filing of the Chapter 9 ~~case~~Cases, Debtors have continued to pay their creditors in the ordinary course for its post-petition debts. To the extent any post-petition obligations have not been paid such amounts may constitute an administrative expense which are treated as a separate class of creditors under the plan.

On October 3, 2013, the Adair County Circuit Court authorized the District to impose a Hospital District Tax at the rate of 10 cents per $100 of assessed property value. There being $666,157,650 of total taxable property in the County, the Hospital District Tax is expected to raise approximately $666,158 per year that will be used to fund the obligations of the Plan.

Debtors have sought to assume and reject several executory contracts and unexpired leases in connection with its reorganization. On October 23, 2013, the Bankruptcy Court entered an Order providing for procedures to expedite the assumption and rejection of executory contracts and unexpired leases. Parties in interest should refer to this order if you hold an executory contract or unexpired lease to be assumed or rejected pursuant to the Plan.

On October 23, 2013, the United States Trustee appointed an Official Committee of Unsecured Creditors for the District (the **"Committee"**) pursuant to 11 U.S.C. § 901 and 1102. The current members of the Committee are Spectrum Health Partners, LLC, and Nextgen, Inc. The Committee retained the firm of Pachulski, Stang, Ziehl & Jones LLP, to represent the Committee, which employment was approved by the Bankruptcy Court pursuant to its Order entered on January 16, 2014 (Doc. No. 127).

On July 1, 2014, the District filed an adversary proceeding against Farmers Bank to determine whether, and to what extent, Farmers Bank holds a security interest in any property of the District. As of the filing of the Disclosure Statement, this case remains pending.

On July 7, 2014, Farmers Bank filed motions to dismiss the Cases. As of the filing of the Disclosure Statement, these motions remain pending.

Since the construction of the Hospital, some maintenance has been deferred. As part of the attempt to either improve the operational performance of the Hospital in order to rehabilitate through a plan of adjustment or to market and sell the Hospital, the District and the Corporation

have replaced the roof at a cost of $193,072.00. Additionally, other capital expenditures have been made to purchase an ultrasound machine, a radiology department picture archiving and communication system costing $311,689.71, a CT-scanner tube costing $53,000.00, operating room scopes costing $100,152.25 and hospital beds costing $9,000.00. Other miscellaneous capital expenditures have totaled $46,950.39, primarily for repairing flooring, painting, and some new furniture.

On November 20, 2015, the Bankruptcy Court ordered the parties to mediate the remaining disputes in this case, and appointed Senior Judge Thomas B. Russell, United States District Court for the Western District of Kentucky, to mediate this case. The Debtors and the major creditors conducted mediation before Judge Russell on December 3, 2015, and continuing the following week. On December 10, 2015, the parties reached a settlement in this matter, which is codified in the Plan.

D. Post Confirmation Operation of the Debtor

Following Plan confirmation, current management and the current Board of Trustees of the District and Board of Directors of the Corporation will be permitted to remain in place, subject to future replacement in accordance with the By-Laws of the Debtors and the laws of the Commonwealth of Kentucky. It is anticipated that current management will continue to be employed by the District only until the closing of the sale of the Hospital contemplated by the Plan, which is anticipated to be ~~44~~no later than 14 days following the date of confirmation of the Plan, upon which time they shall cease to be employees of the District.

E. Retention of Professionals.

The Debtors contemplate the continued need for the retention of professionals in the ordinary course of business and will retain and pay such professionals in the ordinary course of business after the Effective Date. The Debtors anticipate that such professionals would be limited to the audits required by statute and attorneys to assist the Debtors in complying with their ongoing statutory obligations.

F. General Unsecured Creditors.

The Debtors are in the process of reviewing their records to ascertain the differences in amounts in the filed proof of claims and the amounts reflected as owing to claimants in the Debtors' books and records. In furtherance of this claims analysis and resolution process, the Debtors will prepare an omnibus objection to those claims in the filed general unsecured claims which Debtors believes are barred, disputed or duplicative. It is important to note there is no assurance as to whether or not the Debtors will be successful in eliminating or reducing any of these claims.

G. Employees.

Employees of the District have been paid their wages throughout the case. If the Plan is confirmed, the District shall terminate its employees on or before the closing of the sale of the Hospital contemplated by the Plan, which is anticipated to be ~~44~~14 days following the confirmation of the Plan. The New Operator may, but is not required to, hire the employees of the District subsequent to the closing.

H. Priority Unsecured Claims.

Because Chapter 9 only incorporates administrative claims allowed under section 507(a)(2), which are Administrative Claims discussed in Section VI.C below, the Debtors believe that there are no pre-petition claims eligible for priority status under Chapter 9. Moreover, the Debtors believe there are no pre-petition claims under section 503(b)(9), although the Plan proposes to establish the Voting Deadline as the bar date for any creditor to assert any such claims.

I. Statement Regarding Liabilities.

The Debtors anticipates that they may dispute some of the claims that have been asserted against them, and the Debtors' review and analysis of claims is ongoing. Given the fact and inherent uncertainties in any litigation regarding claims, no assurance can be given regarding the successful outcome of any litigation that may be initiated in objection to such claims or regarding the ultimate amount of unsecured claims that will be allowed against the Debtors. As described below, the Plan enables the Debtors to file objections to claims at any time within ninety (90) days after the Effective Date. The Plan also provides for the Debtors to retain any and all defenses, offset and recoupment rights, and counterclaims that may exist with respect to any disputed claim, whether under section 502, 552, or 558 of the Bankruptcy Code or otherwise. Debtors reserve all rights with respect to the allowance and disallowance of any and all claims. In voting on the Plan, creditors may not rely on the absence of a reference in this Disclosure Statement or the Plan or the absence of an objection to their proofs of claim as any indication that the Debtors ultimately will not object to the amount, priority, security, or allowance of their claims.

V. ASSETS OF THE DEBTORS.

The Debtors' consolidated balance sheet is included within the unaudited financial statements attached as Exhibit G to this Disclosure Statement. The financial statements are prepared through considering the Hospital's finances as a whole, including both the District and the Corporation. The Plan provides for a sale of the Hospital as a going concern to a new entity in which the Debtors will have no interest. General unsecured creditors' claims shall be consolidated between the two Cases without regard to whether the claim is against the Corporation or the District.

Parties in interest may not rely on the absence of a reference in this Disclosure Statement or Plan as any indication that the Debtors ultimately will not pursue any and all available claims and causes of action against them. All parties who previously dealt with the Debtor

hereby are on notice that the Plan preserves certain of the Debtors' rights, claims, interests and defenses. The Debtors expect that any and all meritorious claims will be pursued and litigated after the Effective Date to the extent they remain vested in the Debtors.

VI. DISCUSSION OF THE PLAN.

A. Purpose of the Plan and General Plan Requirements.

One purpose of the Plan is to implement a fair and equitable plan for treatment of all Claims based on the circumstances of this case. However, due to the purpose for which the District and the Corporation were created—to provide hospital facilities to the residents of Adair County—the Debtors believe that they have an equal or superior obligation to effectuate a plan that allows for a viable health care facility which provides convenient and accessible health care to the citizens of Adair County. The Debtors were originally created for this purpose and this is the sole purpose for their continued existence. The Debtors cannot maintain a viable full service health care facility based upon their current financial condition. The only realistic option for continuing to provide any meaningful level of health care services generally offered through the Hospital is the sale of the Hospital as described herein to ensure the continued provision of services to the County.

The Plan separates creditors' Claims into 21 classes, exclusive of the Allowed Administrative Claims arising from the Case, which are unclassified in accordance with the Bankruptcy Code.

In order for the holder of a Claim to participate in the Plan and receive the treatment afforded to the applicable Class, such holder's Claim must be an Allowed Claim. A Claim will be allowed if it is filed or deemed filed, unless an objection to the allowance of the Claim is made. Generally, in order for a Claim to be allowed, a proof of Claim must be filed prior to the Bar Date on behalf of the holder thereof with the Bankruptcy Court. However, a Claim will be deemed to be filed if it is listed on the List of Creditors filed with the Bankruptcy Court, unless it is listed as disputed, contingent or unliquidated. If an objection to a Claim is made, the Bankruptcy Court must make a determination with respect to the allowance of such Claim. Only holders of Allowed Claims are entitled to vote upon, participate in and receive distributions in accordance with the Plan.

B. Summary of Plan Terms.

The discussion of the Plan set forth below is qualified in its entirety by reference to the more detailed provisions set forth in the Plan and its exhibits, the terms of which are controlling. Holders of claims and other interested parties are urged to read the Plan a copy of which are attached to this Disclosure Statement as Exhibit A in its entirety so that they may make an informed judgment regarding the Plan.

Holders of Allowed Claims will receive distributions, if any, from the proceeds of the Debtors' assets sold pursuant to the Plan, a portion of the Debtors' assets which are not sold, and the Hospital District Tax, which shall be held by the District for distribution to creditors pursuant to the Plan. The recovery that creditors will receive depends in large part upon the future tax revenue of the District. The Plan provides, however, that the District is obligated to timely assess and collect the Hospital District Tax in the amounts and for the period contemplated to meet its obligations under the Plan.

C. Summary of the Plan Classes and Treatment of Claims.

The categories of Claims listed below classify Claims for all purposes, including voting, Confirmation and distribution pursuant to the Plan and pursuant to Sections 1122 and 1123(a)(1) of the Bankruptcy Code. A Claim shall be deemed classified in a particular Class only to the extent that the Claim qualifies within the description of that Class and shall be deemed classified in a different Class to the extent that any remainder of such Claim qualifies within the description of such different Class. A Claim is in a particular Class only to the extent that such Claim is Allowed in that Class and has not been paid or otherwise settled prior to the Effective Date.

1. Classification of Claims.

a. Administrative Claims. Allowed Administrative Claims are not classified under the Plan and are Unimpaired. Allowed Administrative Claims are claims of the kind described in sections 503(b) and 507(a)(2) of the Bankruptcy Code. Article II of the Plan provides for the treatment of Allowed Administrative Claims. Throughout the course of the Case, the Debtors have endeavored to satisfy administrative expenses as they became due. Accordingly, the Debtors believes that most Claims that otherwise would constitute Allowed Administrative Claims previously have been or will be satisfied in the ordinary course of business prior to the Effective Date.

b. Professional Claims. Professional Claims are claims of professionals for services rendered or expenses incurred in rendering such services in the chapter 9 case or incident to the Plan. Article II.3 of the Plan provides that, pursuant to section 943(b)(3) of the Bankruptcy Code, all Professional Claims must be disclosed and be reasonable and that, upon being deemed reasonable, the Debtors will pay to each holder of a Professional Claim, in full satisfaction, release and discharge of such claim, cash in an amount equal to that portion of such claim that is deemed reasonable, except to the extent such claim previously has been paid or satisfied. The Debtors have paid the fees of its bankruptcy counsel and other professionals, on a regular basis during the ~~chapter~~Chapter 9 ~~case~~Cases, but has not paid any amounts to counsel for the Creditors' Committee, as the District disputes whether it has the obligation to pay such fees. The Committee contends that the District is obligated to pay the fees and expenses of counsel for the Committee as an administrative expense upon confirmation of the Plan. ~~A disclosure of (i) all amounts paid to professionals since the filing of the petition; (ii) any unpaid amounts outstanding; and (iii) an estimate of fees and expenses to complete the case will be filed with the Bankruptcy Court prior to the hearing on confirmation of the Plan. Debtors anticipate filing a final report and application to close the case, at which time it will provide an accounting of all fees and expenses incurred by Debtors' professionals~~***Confirmation of the Plan shall constitute a compromise of this controversy pursuant to Rule 9019 of the Federal Rules of Bankruptcy Procedure.*** The Disclosure Statement contains information about the Professional Fees incurred to Date. The Plan provides for the payment of the Professional Claims of the Debtors and the Committee. The Professional Claims incurred are disclosed herein and shall be deemed reasonable in the Confirmation Order.

c. Class 1. Class 1 consists of the secured claims of Farmers

Bank under the GO Note. This class is Impaired.

d. Class 2. Class 2 consists of the claims of AmerisourceBergen Drug Corporation (**"Amerisource"**). This class is Impaired.

e. Class 3. Class 3 consists of the claims of De Lage Landen Financial Services (**"De Lage"**), as successor in interest to Thermo Fisher Financial Services Inc. This class is Impaired.

f. Class 4. Class 4 consists of the claims of Norlease, Inc. and Leasing Associates of Barrington, Inc (**"Norlease"**). This class is Impaired.

g. Class 5. Class 5 consists of the claims of The Bank of New York Trust Company, N.A. (**"BONY"**). This class is Impaired.

h. Class 6. Class 6 consists of the claims of the Bank of Columbia. This class is Impaired.

i. Class 7. Class 7 consists of the secured claims of Farmers Bank under the Mortgage Note. This class is Impaired.

j. Class 8. Class 8 consists of the claims of US Bank, National Association, as successor to Citizens Fidelity Bank & Trust Company, as trustee for the registered holders of Community Program Loan Trust 1987A (**"US Bank"**). This class is Impaired.

k. Class 9. Class 9 consists of the claims of Gordon Food Service, Inc. This class is Impaired.

l. Class 10. Class 10 consists of the claims of US Bank dba US Bank Equipment Finance, as successor to Stryker Sales Corporation. This class is Impaired.

m. Class 11. Class 11 consists of the claims of Republic Bank and Med One Capital Funding LLC. This class is Impaired.

n. Class 12. Class 12 consists of claims of General Electric Capital Corporation. This class is Impaired.

o. Class 13. Class 13 consists of the claims of Monticello Banking Co. This class is Impaired.

p. Class 14. Class 14 consists of the claims of the Commonwealth of Kentucky. This class is Impaired.

q. Class 15. Class 15 consists of the claims of the United States of America. This class is Impaired.

r. Class 16. Class 16 consists of claims of unsecured creditors not otherwise classified who hold rights of recoupment. This class is Impaired.

s. Class 17. Class 17 consists of the claims of parties to executory contracts and leases the Debtor assumes pursuant to the Plan or by separate Order of the Bankruptcy Court to the extent such claim is allowed to cure any default by the Debtor pursuant to such contract as provided in 11 U.S.C. § 365(b)(1).

t. Class 18. Class 18 consists of the unsecured claims of Farmers Bank under the GO Note~~.~~ and the Mortgage Note. This class is Impaired.

u. Class 19. Class 19 consists of the claims of general unsecured creditors. This class is Impaired.

v. Class 20. Class 20 consists of a convenience class of allowed general unsecured creditors with claims equal to or under $5,000, or whose claim(s) are reduced to a single claim equal to $5,000. This class is Impaired.

w. Class 21. Class 21 consists of claims that are contractually or statutorily subordinated pursuant to the Plan, including ~~the~~any claim of the Adair County Fiscal Court. This class is Impaired.

x. Class 22. Class 22 consists of claims not receiving any distribution pursuant to the Plan, including any deficiency claim held by Farmers Bank under the Mortgage Note. This class is Impaired.

2. Treatment of Classes

a. Administrative Claims and Professional Claims. Allowed Administrative Claims are claims of the kind described in sections 503(b) and 507(a)(2) of the Bankruptcy Code. Throughout the course of the Chapter 9 Case, the Debtors have endeavored to satisfy administrative expenses as they became due. Accordingly, the Debtors believe that all Claims that otherwise would constitute Allowed Administrative Claims previously have been or will be satisfied in the ordinary course of business prior to or within fourteen (14) days after the Effective Date by the Debtors, unless such Claim or Claims are not yet an Allowed Claim(s), in which case they will be paid by the Debtors prior to or within fourteen (14) days after the date such claim is allowed by order of the Bankruptcy Court. The Debtors shall have no liability for any amount assumed by the New Operator.

~~Notwithstanding the foregoing, in conjunction with the sale of the Hospital contemplated by the Plan, the new operator of the Hospital (the **"New Operator"**) shall assume up to $150,000.00 of liability of Debtors to employees for accrued paid time off. The Debtors shall have no liability for any amount assumed by the New Operator. Accrued paid time off not assumed by the New~~

~~Operator shall be paid by the District sixty (60) days following the Effective Date.~~
Except as otherwise proved herein, each person or entity (including, without limitation, each individual, partnership, joint venture, corporation, limited liability company, estate, trust, or governmental unit) that holds or wishes to asset a claim (as defined in section 101(5) of the Bankruptcy Code) against the Debtors that: (a) may have arisen, accrued, or otherwise become due and payable subsequent to the Petition Date, but prior to the Effective Date; (b) is allowable as an administrative expense claim under section 503(b) of the Bankruptcy Code; and (c) is entitled to first priority under section 507(a)(2) of the Bankruptcy Code (an **"Administrative Claim"**), must file an application requesting allowance of such Administrative Claim on or before thirty (30) days following the Effective Date of the Plan (the **"Administrative Claim Bar Date"**). All requests for allowance and payment of administrative expenses of the Chapter 9 Case must be filed by the Administrative Claim Bar Date. The Administrative Claim Bar Date shall not apply to (a) Administrative Claims previously Allowed by order of the Bankruptcy Court, or (b) administrative expenses that have previously been paid by the Debtors, in whole or in part, in the ordinary course of the Debtors' business. In addition, holders of administrative expenses based on liabilities or obligations incurred in the ordinary course of the Debtors' business following the Petition Date shall not be required to comply with the Administrative Claim Bar Date, provided that, (i) such holders have otherwise submitted an invoice, billing statement or other evidence of indebtedness to the Debtors in the ordinary course of business, and (ii) such claims are not past due according to their terms. The Administrative Claim Bar Date applies to any Claim (or portion of a Claim) that has previously been filed (in a proof of claim) or listed (in the List of Creditors), to the extent the Creditor asserting such claim seeks priority for such claim (or portion thereof) based on the value of goods received by the Debtors within 20 days before the Petition Date pursuant to Section 503(b)(9) of the Bankruptcy Code. To the extent any Creditor asserts that any portion of its Claim (whether filed or listed) is entitled to priority under Section 503(b)(9) of the Bankruptcy Code, that Creditor must file a separate request for payment of such priority portion by the Administrative Claim Bar Date (unless such amount has been previously Allowed by order of the Bankruptcy Court). A proof of Claim shall not constitute a separate request for payment of such priority portion.

The Administrative Claim Bar Date does not have any effect on the bar date established for the filing of general claims. Furthermore, the Administrative Claim Bar Date does not apply to individuals or service providers supplying goods or services on or after the Effective Date. Any holder of an Administrative Claim against the Debtors (an **"Administrative Claimant"**) who is required, but fails, to file a request for the allowance of an administrative claim in accordance with this Order on or before the Administrative Claim Bar shall not be permitted to participate in any distribution in the Debtors' chapter 9 cases on account of such Administrative Claim; and (b) such Administrative Claimant shall not be permitted to participate in any distribution in the Debtors' chapter 9 cases on account of such Administrative Claim or to receive further notices regarding such Administrative Claim.

The Debtors have incurred fees and expenses to Seiller Waterman LLC (such fees and expenses, along with any others incurred by the Debtors, the **"Professional Fees"**) during the pendency of the Cases for representation of the Debtors in connection with the Cases. Including representation of the Debtors prior to the commencement of the Cases, the Debtors have incurred Professional Fees to Seiller Waterman LLC of $203,750.12 in fees through October 19, 2015,

and expenses of $21,604.71 through October 8, 2015. The Debtors have paid such Professional Fees in the ordinary course of their business. Pursuant to the Plan, these Professional Fees shall be deemed reasonable pursuant to Section 943(b)(3) of the Bankruptcy Code.

The Debtors have incurred Professional Fees to Blue & Co., LLC during the pendency of the Cases for audits of the Debtors for fiscal years 2013, 2014, and 2015. The Debtors have incurred Professional Fees to Blue & Co., LLC of $292,018.50. The Debtors have paid such Professional Fees in the ordinary course of their business. Pursuant to the Plan, these Professional Fees shall be deemed reasonable pursuant to Section 943(b)(3) of the Bankruptcy Code.

Claims for Professional Fees incurred by the Committee prior to the Effective Date shall be paid by the ~~Debtors in such amount as may be agreed by the~~ District ~~or otherwise Allowed by the Bankruptcy Court and determined as reasonable pursuant to Section 943(b)(3) of the Bankruptcy Code.~~. The Committee has incurred Professional Fees to Pachulski Stang Ziehl & Jones LLP of $~~376,366.26~~400,083.89 for fees and expenses through ~~September~~November 30, 2015. Prior to or within fourteen (14) days after the Effective Date, the District ~~may (or~~ shall ~~if ordered by the Court)~~ make payment in the amount of $~~188,183.13~~300,083.89 to Pachulski Stang Ziehl & Jones LLP on account of such Professional Fees ~~or in a lesser amount to the extent the Court allows the Professional Fees in an lesser amount~~. The remaining balance shall be aggregated with any Professional Fees of the Committee incurred subsequent to ~~October~~December 1, 2015, but prior to the dissolution of the Committee, as such post December 1, 2015 Professional Fees may be Allowed pursuant to Section V.25 of the Plan. The District ~~may (or~~ shall ~~if ordered by the Court)~~ pay such Allowed Professional Fees in two equal installments, the first of which shall be ~~due~~paid no later than January 31, 2017, and the second of which shall be ~~due~~paid no later than January 31, 2018.

~~Claims for Professional Fees incurred by the Debtors and the Committee prior to the Effective Date, to the extent not paid during the Chapter 9 Case, shall be paid by the District to the extent it is an Allowed Claim~~

~~The Voting Deadline applies to any Claim (or portion of a Claim) that has previously been filed (in a proof of claim) or listed (in the Lists of Creditors), to the extent the Creditor asserting such claim seeks priority for such claim (or portion thereof) based on the value of goods received by the Debtor within 20 days before the Petition Date pursuant to Section 503(b)(9) of the Bankruptcy Code. To the extent any Creditor asserts that any portion of its Claim (whether filed or listed) is entitled to priority under Section 503(b)(9) of the Bankruptcy Code, that Creditor must file a separate request for payment of such priority portion by the Voting Deadline, or be forever barred from asserting a Claim against the Debtors or their property and sharing in any distribution under the Plan.~~

b. Class 1. Farmers Bank. Class 1 consists of the secured claims of Farmers Bank under the Adair County Hospital District Taxable General Obligation Bond Anticipation Notes, Series 2010 No. R-1 dated October 14, 2010 (the **"GO Note"**). Farmers Bank filed a proof of claim in the amount of $6,983,567.57, plus post-petition interest and reasonable attorneys' fees.

~~All Class 1 claims shall be treated as unsecured Class 18 claims.~~The holders of the Class 1 Claim

shall receive, on account of such secured Claim, payment in cash equal to $175,000.00 prior to or within fourteen (14) days after the Effective Date. Said payment shall be wire transferred to Farmers Bank. The remaining portion of the Class 1 Claim, as agreed to by the holders of the Class 1 and Class 7 Claims, shall receive treatment as a secured Class 18 Claim. Holders of Class 1 claims shall have no claim to any property of the Debtors or the Hospital District Tax. except as provided in the Plan.

c. Class 2. Amerisource. Class 2 consists of the claims of Amerisource. Amerisource filed a UCC Financing Statement against the District, File Number 2011-2536988-55 in the Office of the Secretary of State of the Commonwealth of Kentucky. Amerisource alleges a lien on the following property:

> All of Debtor's personal property and any and all additions, substitutions, Accessions and Proceeds thereto or thereof, wherever located, and now owned or hereafter acquired or arising, including the following: All of Debtor's (a) Accounts; (b) Inventory; (c) Chattel Paper; (d) Commercial Tort Claims as disclosed on Debtor's Financial Statements; (e) Deposit Accounts; (f) Documents; (g) Equipment; (h) General Intangibles; (i) Goods; (j) Instruments; (k) Investment Property; (l) Letter of Credit Rights; (m) insurance on all of the foregoing and the proceeds of that insurance; (n) Debtor's money and other property of every kind and nature now or at any time or times hereafter in the possession of or under the control of Secured Party; and (o) the Cash proceeds, Noncash proceeds and products of all of the foregoing and the Proceeds of other Proceeds. All capitalized terms used herein and not defined have the meaning set forth in the Uniform Commercial Code as in effect in any jurisdiction in which any of the Collateral may at the time be located.

The District scheduled Amerisource as a disputed secured claim in the amount of $8,071.89. Pursuant to the Bar Date Order, holders of Disputed Claims were required to file a proof of claim no later than 5:00 pm on October 29, 2013. Amerisource failed to file any claim. The Plan does not provide for any distribution to Amerisource on account of its claim. Any lien asserted or which may have been asserted by Amerisource against the District is avoided pursuant to 11 U.S.C. § 506, and no lien originating prior to the commencement of the case shall attach to property of the District.

d. Class 3. De Lage. Class 3 consists of the claims of De Lage. Thermo Fisher Financial Services, Inc. (**"Thermo Fisher"**) filed a UCC Financing Statement against the District, File Number 2011-2499724-71 in the Office of the Secretary of State of the Commonwealth of Kentucky. Thermo Fisher alleged a lien on the following property:

> i-STAT System Analyzer; Martel Printer Electronic Simulator; Operators Manual; Rechargeable Downloader

De Lage is the successor in interest to Thermo Fisher. De Lage filed Claim #20 against the District, alleging a claim in the amount of $7,608.60 secured by the above-listed collateral, which De Lage asserts has a value of $1,000.00.

Pursuant to Section 506 of the Bankruptcy Code, De Lage shall hold a secured Class 3 claim in the amount of $1,000.00, and an unsecured Class 19 claim in the amount of not more than $6,608.60. The District shall pay such Class 3 claim in full in cash prior to or within fourteen (14) days after the Effective Date of the Plan. De Lage's liens against the Debtors shall be discharged, and no lien originating prior to the commencement of the case shall attach to property of the Debtors on account of its Class 3 claim.

e. Class 4. Norlease. Class 4 consists of the claims of Norlease. Norlease filed two UCC Financing Statements against the District, File Number 2007-2277430-34 and File Number 2007-2277421-24 in the Office of the Secretary of State of the Commonwealth of Kentucky. Norlease alleges a lien on the following property:

> File Number 2007-2277430-34: Including but without limitation, One (1) GE Brightspeed Elite 16 Slice CT Scanner including Delivery, Installation, Training and all attachments and accessories as provided by GE HEALTHCARE, leased by secured party as lessor to debtor as lessee under Lease No. 7819000 dated October 10, 2007 as time to time may be amended or supplemented.
>
> File Number 2007-2277421-24: Including but without limitation, One (1) B1018-540 WalkAway-40 SI System with LabPro and One (1) B1018-516 LabPro Alert System…including Shipping & Handling, all attachments and accessories as provided by DADE BEHRING, INC, leased by secured party as lessor to debtor as lessee under Lease No. 76820000 dated October 10, 2007 as time to time may be amended or supplemented.

The District scheduled Norlease as a disputed secured claim in the amount of $0.00. Pursuant to the Bar Date Order, holders of Disputed Claims were required to file a proof of claim no later than 5:00 pm on October 29, 2013. Norlease failed to file any claim. The Plan does not provide for any distribution to Norlease on account of its claim. Any lien asserted or which may have been asserted by Norlease against the District is avoided pursuant to 11 U.S.C. § 506, and no lien originating prior to the commencement of the case shall attach to property of the District.

f. Class 5. BONY. Class 5 consists of the claim of BONY. JPMorgan Chase Bank (**"Chase"**) filed a UCC Financing Statements against the District, File Number 2002-1858321-22 in the Office of the Secretary of State of the Commonwealth of Kentucky. Chase alleged a lien on the following property:

> All "Gross Receipts" (including without limitation revenues or other money received by the Debtor from the operation of the Project Site, proceeds of inventory and insurance available to the Debtor and all present or future accounts, contracts and agreements, general intangibles, documents and instruments and the proceeds thereof) as defined in the Contract, Lease & Option between Debtor and Secured Party dated as of December 1, 1997, a copy of which is on file in the office of the Debtor and in the office of the Secured Party.

Chase assigned its lien to BONY on May 29, 2007.

The District scheduled BONY as a disputed secured claim in an unknown amount. Pursuant to the Bar Date Order, holders of Disputed Claims were required to file a proof of claim no later than 5:00 pm on October 29, 2013. BONY failed to file any claim. The Plan does not provide for any distribution to BONY on account of its claim. Any lien asserted or which may have been asserted by BONY against the District is avoided pursuant to 11 U.S.C. § 506, and no lien originating prior to the commencement of the case shall attach to property of the District.

g. Class 6. Bank of Columbia. Class 6 consists of the claims of the Bank of Columbia. The Bank of Columbia filed a UCC Financing Statement against the Corporation, File Number 2009-2419778-89 in the Office of the Secretary of State of the Commonwealth of Kentucky. Bank of Columbia alleges a lien on the following property:

> All equipment of Adair County Public Hospital District Corp, Adair Co Hospital District, or DBA Westlake Regional Hospital currently owned or purchased in the future.

Pursuant to that certain Settlement Agreement and Release filed of record on May 12, 2014 (**"BOC Settlement"**), the Bank of Columbia holds a Secured Claim against the Corporation and the District in the amount of $357,460.65.

Prior to or within fourteen (14) days after the Effective Date, the Debtors shall pay to Bank of Columbia the amount presently due pursuant to the BOC Settlement~~. The Class 6 Claim~~, less $175,000.00. Bank of Columbia shall ~~be treated as paid and all~~retain its liens against the equipment ~~owned by~~transferred to the New Operator pursuant to the Plan until the amount due pursuant to the BOC Settlement is paid in full. Any remaining claims against the Debtors or property of the Debtors shall be ~~deemed~~ discharged ~~and released upon payment~~.

h. Class 7. Farmers Bank. Class 7 consists of the secured claim against the Corporation under the Revenue Refunding Bond Anticipation Notes, Series 2010 No. R-1 dated October 14, 2010, and the Contract, Lease and Option dated October 1, 2010, secured under a Mortgage Deed of Trust, dated October 1, 2010, which is recorded in the Adair County Clerk's Office in Mortgage Book 297, Pages 643-699. Pursuant to the mortgage, Farmers Bank claims a mortgage interest in the properties commonly known as Westlake Regional Hospital (Deed Book 130, Page 83 in the Adair County Clerk's Office), and Westlake Primary Care Center (Deed Book 202, Page 125, and Deed Book 205, Page 288, in the Adair County Clerk's Office). The holders of the Class 7 Claim shall receive, on account of such claim, payment in cash in equal to $~~2,000~~1,500,000.00 prior to or within fourteen (14) days after the Effective Date of the Plan ~~in full and final settlement and satisfaction of the Class 7 claim~~. Said payment shall be wire transferred to Farmers Bank. The remaining portion of the Class 7 claim shall receive treatment as a Class 18 claim.

i. Class 8. US Bank. Class 8 consists of the claims of US Bank. US Bank is the trustee under a declaration of trust dated 8/15/1987 known as Community Program Loan Trust 1987A. US Bank is the successor-in-interest to Fleet National Bank (**"Fleet"**). Fleet filed a UCC

Financing Statement against the Corporation, File Number 2009-2374715-70 in the Office of the Secretary of State of the Commonwealth of Kentucky. US Bank alleges a lien on the property described therein, including personal property, rights, revenues, equipment, fixtures, and proceeds thereof.

US Bank's claim shall be allowed in the amount of $965,000.00, or such lower amount as may be the current principal balance of such loan, and shall be paid as follows: On the Effective Date of the Plan, US Bank shall be granted relief from the automatic stay and the discharge injunction to exercise applicable remedies pursuant to non-bankruptcy law only with respect to certain deposits or treasuries held by The Bank of New York Trust Company, N.A. or JPMorgan Chase Bank (the **"Escrowed Collateral"**), which are in an amount sufficient to satisfy the Class 8 Claim in full. US Bank shall receive no further distribution on account of its Class 8 Claim. US Bank shall not be required to exercise its rights against the Escrowed Collateral, and may exercise their rights in whole or in part, as US Bank may deem appropriate. All liens claimed by US Bank against property of the Debtors other than the Escrowed Collateral shall be released and discharged. All claims by US Bank against the Debtors in personam shall be released and discharged. US Bank's sole recovery pursuant to the Plan shall be from the Escrowed Collateral. Pursuant to the Plan, the Debtors shall assume the Escrow Trust Agreement with The Bank of New York Mellon, N.A., dated as of December 1, 1997. There are no assumption obligations due or payable under the foregoing agreement.

j. Class 9. Gordon Food Service, Inc. Class 9 consists of the secured claims of Gordon Food Service, Inc. Gordon Food Service, Inc filed a UCC Financing Statement against the Corporation, File Number 2012-2568045-45 in the Office of the Secretary of State of the Commonwealth of Kentucky. Gordon Food Service, Inc alleges a lien on the following property:

> All assets, without limitation, including all goods, equipment, inventory, vehicles, fixtures, work in process, accounts receivable, instruments, chattel paper, causes of action, general intangibles, including any liquor license(s), and all proceeds thereof.

The Corporation scheduled Gordon Food Service, Inc as a disputed secured claim in the amount of $3,239.64. Pursuant to the Bar Date Order, holders of Disputed Claims were required to file a proof of claim no later than 5:00 pm on October 29, 2013. Gordon Food Service, Inc. failed to file any claim. The Plan does not provide for any distribution to Gordon Food Service, Inc. on account of its claim. Any lien asserted or which may have been asserted by Gordon Food Service, Inc. against the Corporation is avoided pursuant to 11 U.S.C. § 506, and no lien originating prior to the commencement of the case shall attach to property of the Corporation.

k. Class 10. US Bank. Class 10 consists of the secured claims of US Bank as successor to Stryker Sales Corporation. Stryker Sales Corporation filed three UCC Financing Statements against the Corporation, File Number 2011-2541741-98, File Number 2011-2542096-92, and File Number 2011-2548023-48 in the Office of the Secretary of State of the Commonwealth of Kentucky. Stryker Sales Corporation alleged a lien on the following property:

> File Number 2011-2541741-98: ONE (1) 5920-011-000 SMARTPUMP DUAL

CHANNEL, ONE (1) 5920-013-000 SMARTPUMP ROLLING STAND TOGETHER WITH ALL REPLACEMENTS, PARTS, REPAIRS, ADDITIONS, ACCESSIONS AND ACCESSORIES INCORPORATED THEREIN OR AFFIXED OR ATTACHED THERETO AND ANY AND ALL PROCEEDS OF THE FOREGOING, INCLUDING, WITHOUT LIMITATION, INSURANCE RECOVERIES. ANY RECEIPT OF PROCEEDS OF THE COLLATERAL BY ANOTHER SECURED PARTY VIOLATES THE RIGHTS OF SECURED PARTY.

File Number 2011-2542096-92: specific equipment as more particularly described therein, together with all replacements, parts, repairs, additions, accessions and accessories incorporated therein or affixed or attached thereto and any and all proceeds of the foregoing, including without limitation, insurance recoveries.

File Number 2011-2548023-48: ONE (1) SDC HD DIGITAL CAPTURE DEVICE- REFURBISHED, MODEL# 999999999; ONE (1) PKG, KODAK ESP 7250 PRINTER, MODEL# 0240-080-225. TOGETHER WITH ALL REPLACEMENTS, PARTS, REPAIRS, ADDITIONS, ACCESSIONS AND ACCESSORIES INCORPORATED THEREIN OR AFFIXED OR ATTACHED THERETO AND ANY AND ALL PROCEEDS OF THE FOREGOING, INCLUDING, WITHOUT LIMITATION, INSURANCE RECOVERIES. ANY RECEIPT OF PROCEEDS OF THE COLLATERAL BY ANOTHER SECURED PARTY VIOLATES THE RIGHTS OF SECURED PARTY.

US Bank filed Claim #18 against the District, but such claim is properly against the Corporation as the equipment in question is owned by the Corporation.

To the extent that the Class 10 Claim is allowed as a secured claim pursuant to Section 506 of the Bankruptcy Code, the holder of the Class 10 Claim shall receive a cash payment on or before the Effective Date equal to the allowed amount of its secured claim. US Bank alleges a claim in the amount of $35,377.77 secured by the above-listed collateral, which US Bank asserts has a value of $11,750.

Pursuant to Section 506 of the Bankruptcy Code, US Bank shall hold a secured Class 10 claim in the amount of $11,750, and an unsecured Class 19 claim in the amount of $23,627.77. The Debtors shall pay such Class 10 claim in full in cash prior to or within fourteen (14) days after the Effective Date of the Plan. US Bank's liens against the Debtors shall be discharged, and no lien originating prior to the commencement of the case shall attach to property of the Debtors on account of its Class 10 claim.

US Bank's liens against the Debtors shall be discharged, and no lien originating prior to the commencement of the case shall attach to property of the Debtors on account of its Class 10 claim.

l. Class 11. Republic Bank and Med One Capital Funding LLC. Class 11 consists of the secured claims of Republic Bank and Med One Capital Funding LLC. Republic Bank and

Med One Capital Funding LLC filed a UCC Financing Statement against the Corporation and Casey County Hospital, File Number 2010-2468012-96 in the Office of the Secretary of State of the Commonwealth of Kentucky. On February 24, 2012, Republic Bank filed an amendment to the UCC Financing Statement to change the debtor therein to Casey County Primary Care; Casey County Family Practice; Casey County Hospital. Republic Bank and Med One Capital Funding LLC alleged a lien on a Hamilton C2 Package, supplied by Hamilton Medical, Inc., located at Casey County Hospital, 187 Wolford Avenue, Liberty KY 42539.

The Corporation scheduled Republic Bank and Med One Capital Funding LLC as disputed secured claims in the amount of $0.00. Pursuant to the Bar Date Order, holders of Disputed Claims were required to file a proof of claim no later than 5:00 pm on October 29, 2013. Republic Bank and Med One Capital Funding LLC failed to file any claim. The Plan does not provide for any distribution to Republic Bank or Med One Capital Funding LLC on account of their claim.

Any lien asserted or which may have been asserted by Republic Bank and Med One Capital Funding LLC against the Corporation is avoided pursuant to 11 U.S.C. § 506, and no lien originating prior to the commencement of the case shall attach to property of the Corporation.

m. Class 12. General Electric Capital Corporation. Class 12 consists of the claims of General Electric Capital Corporation. General Electric Capital Corporation filed a UCC Financing Statement against the Corporation, File Number 2002-1887599-71 in the Office of the Secretary of State of the Commonwealth of Kentucky. On December 12, 2012, the UCC Financing Statement lapsed. General Electric Capital Corporation claimed a lien on the following property:

> One (1) GE Medical Systems Vivid 7 Pro. And all additions, accessions, modifications, improvements, replacements, substitutions, and accessories thereto and therefor or hereafter acquired.

The Corporation scheduled General Electric Capital Corporation as disputed secured claims in the amount of $0.00. Pursuant to the Bar Date Order, holders of Disputed Claims were required to file a proof of claim no later than 5:00 pm on October 29, 2013. General Electric Capital Corporation failed to file any claim. The Plan does not provide for any distribution to General Electric Capital Corporation on account of their claim. Any lien asserted or which may have been asserted by General Electric Capital Corporation against the Corporation is avoided pursuant to 11 U.S.C. § 506, and no lien originating prior to the commencement of the case shall attach to property of the Corporation.

n. Class 13. Monticello Banking Co. Class 13 consists of the claim of Monticello Banking Co. against the Corporation, which claim is secured by a consensual Mortgage dated January 10, 2007, in the original amount of $3,000,000.00, with advances not to exceed $3,800,000.00, which is recorded in the Adair County Clerk's Office in Mortgage Book 260, Page 325. Pursuant to the mortgage, Monticello Banking Co claims a mortgage interest in the property commonly known as Westlake Regional Hospital (Deed Book 130, Page 83 in the Adair County Clerk's Office),

The Corporation scheduled Monticello Banking Co as disputed secured claims in the amount of $0.00. Pursuant to the Bar Date Order, holders of Disputed Claims were required to file a proof of claim no later than 5:00 pm on October 29, 2013. Monticello Banking Co. failed to file any claim. The Plan does not provide for any distribution to Monticello Banking Co Corporation on account of their claim. Any lien asserted or which may have been asserted by Monticello Banking Co against the Corporation is avoided pursuant to 11 U.S.C. § 506, and no lien originating prior to the commencement of the case shall attach to property of the Corporation.

o. Class 14. The Commonwealth of Kentucky. Class 14 consists of the claims of the Commonwealth of Kentucky for recoupment of overpayments on Medicaid services provided by the District. The Commonwealth of Kentucky would have rights of recoupment to withhold funds due to the District for future Medicaid services to satisfy such debt, notwithstanding the automatic stay afforded by the Bankruptcy Code. The Commonwealth of Kentucky has asserted a claim in the amount of $7,585,306.62 against the District.

The Commonwealth of Kentucky alleges it would have the right to recoup Medicaid funds due to the District to recover its claim in full. *See In re CDM Management*, 226 B.R. 195, 197 (Bankr. S.D. Ind. 1997) (citing *In re Public Service Co. of New Hampshire*, 107 B.R. 441, 445 (Bankr. D.N.H. 1989)). As of the date of this Disclosure Statement, the Commonwealth of Kentucky has voluntarily refrained from recoupment activities.

The District shall assume and assign its executory contracts with the Commonwealth of Kentucky pursuant to the Plan. Prior to or within fourteen (14) days after the Effective Date, the Commonwealth of Kentucky shall receive a cure payment in the amount of no more than $2,168,715.00 from the District in full satisfaction and settlement of the Class 14 claim and as adequate assurance of future performance from the New Operator. The Commonwealth of Kentucky shall not receive any additional adequate assurance of future payment and performance from the New Operator.

The cure payment would be in full and final satisfaction and settlement of any claims for the cure of any defaults or compensation for any actual pecuniary loss arising under any of the Provider Agreements prior to the Effective Date. The claims of the Commonwealth of Kentucky would be deemed satisfied and waived in full upon the Effective Date. The cure payment would also be deemed to satisfy any obligation to reimburse any other person or governmental unit on account of any alleged Medicaid overpayments due to the Commonwealth of Kentucky existing on the Effective Date, whether known or unknown, not otherwise satisfied by the cure payment.

p. Class 15. The United States of America. Class 15 consists of the claims of the United States of America for recoupment of overpayments on Medicare services provided by the District. The United States of America would have rights of recoupment to withhold funds due to the Debtor for future Medicare services to satisfy such debt, notwithstanding the automatic stay afforded by the Bankruptcy Code. The United States of America has asserted a claim in the amount of $505,934.00 against the District, but has not filed a proof of claim for such amount.

The United States of America alleges it would have the right to recoup Medicare funds due to the

District to recover its claim in full. *See In re CDM Management*, 226 B.R. 195, 197 (Bankr. S.D. Ind. 1997) (citing *In re Public Service Co. of New Hampshire*, 107 B.R. 441, 445 (Bankr. D.N.H. 1989)). As of the date of this Disclosure Statement, the United States of America has refrained from such recoupment activities, and the District is making payment obligations under the CMS Repayment Agreement for the $505,934 overpayment due pursuant to the June 30, 2010, notice of program reimbursement.

The District shall assume and assign its executory contracts with the United States of America pursuant to the Plan. ~~Prior to or within fourteen (14) days after the Effective Date, the United States of America shall receive any cure payment in the amount of no more than $334,217.45 from the District in full satisfaction and settlement of the Class 15 claim and as adequate assurance of future payment and performance from the New Operator. The United States of America shall not receive any~~The United States of America shall not receive any payment in connection with the assumption or assignment of the Provider Agreements from the Debtors or the New Operator, nor shall it receive additional adequate assurance of future payment and performance from the New Operator.

~~The cure payment would~~The United States shall receive no payment from the Debtors or the New Operator, and the assumption and assignment of the provider agreements shall be in full and final satisfaction and settlement of any claims for the cure of any defaults or compensation for any actual pecuniary loss arising under any of the Provider Agreements prior to the Effective Date. The claims of the United States of America would be deemed satisfied and waived in full upon the Effective Date. ~~The cure payment would~~This shall also be deemed to satisfy any obligation of the United States of America the District's outstanding payment obligations under the CMS Repayment Agreement for the $334,217.45 overpayment due pursuant to the June 30, 2010, notice of program reimbursement. ~~The cure payment would~~This shall also be deemed to satisfy any obligation to reimburse any other person or governmental unit on account of any alleged Medicare overpayments due to the United States of America existing on the Effective Date, whether known or unknown, not otherwise satisfied by the cure payment.

q. Class 16. Other Creditors with Rights of Recoupment. Class 16 consists of claims of creditors not otherwise classified who hold rights of recoupment. Any creditor may assert a right of recoupment by moving the Bankruptcy Court for a determination that such action exists prior to the first day set for the hearing on the confirmation of the Plan. Any creditor who does not assert such recoupment right by motion shall be deemed to have waived any such right. In the event the creditor otherwise holds an Allowed Class 19 Claim filed prior to the Bar Date, such creditor shall participate in Class 19.

Upon entry of a final, unappealable Order by the Bankruptcy Court that a creditor is a member of Class 16, each member of Class 16 shall be entitled to exercise any right of recoupment it may possess. Any remaining amount owed to a member of Class 16 would be entitled to distribution as a Class 19 claim.

r. Class 17. Executory Contracts and Leases Cure Claims. Class 17 consists of the claims of parties to executory contracts and leases the Debtors assume, or assume and assign, pursuant to the Plan or by separate Order of the Bankruptcy Court to the extent such claim is

allowed to cure any default by the Debtors pursuant to such contract as provided in 11 U.S.C. § 365(b)(1).

The Debtors shall identify all executory contracts and leases to be assumed, cured, and assigned prior to the Effective Date of the Plan. The Debtors will not assume any executory contract or lease unless such executory contract or lease is assigned, except as stated in this subsection. The assignee of such executory contract or lease shall pay all amounts due to cure any deficiencies arising thereunder.

The sole executory contract to be assumed by the District which shall not be assigned is the Escrow Trust Agreement with The Bank of New York Mellon, N.A., dated as of December 1, 1997, which contract relates to the Class 8 Claim.

Unless a party to such contract objects prior to the confirmation of the Plan, the New Operator shall pay such claims in equal monthly payments over sixty (60) months. Any holder of a Class 17 claim may assert a right to a cure payment by moving the Bankruptcy Court for a determination that such right to a cure payment exists prior to the first day set for the hearing on the confirmation of the Plan. Any creditor who does not assert such right by motion shall be deemed to have waived any such right. In the event the creditor otherwise holds an Allowed Class 19 Claim filed prior to the Bar Date, such creditor shall participate in Class 19. Any holder of a Class 17 claim shall receive any cure payment or adequate assurance of future payment and performance from the assignee of such executory contracts. No distribution shall be made from the Debtors on account of any Class 17 claim.

s. Class 18. Farmers Bank. Class 18 consists of the claims of Farmers Bank, as described more particularly in the treatment for Class 1 and Class 7 claims. Farmers Bank shall hold an Allowed Class 18 Claim in the amount of $7,212,500.00.

Following the payment of Class 19 and 20 claims, the remaining Net Assets shall be distributed to holders of Class 18 claims in the following manner. The District shall continue to assess the Hospital District Tax ~~until December 31, 2025,~~ and add any amounts received on account of such tax years to the Net Assets. After deducting the expenses of the Plan in the maximum amount of $50,000.00 per year, or such higher amount in a particular year as Farmers Bank may agree, the District shall make distributions to members of Class 18~~,~~ of the Net Assets beginning no later than ~~January 31 of the year following payment of Class 19 Claims pursuant to the Plan~~December 20, 2018, and continuing every ~~January 31~~December 20 thereafter until ~~January 31, 2027, on which date~~the holder of the Class 18 claim receives the sum of $7,212,500.00. Such distributions shall be in the minimum amount of $650,000.00 per year, as provided in the payment schedule attached hereto as Exhibit K. In the event the District ~~shall distribute~~is unable to pay the sum of $650,000.00 in any ~~remaining Net Assets~~particular year, the District shall, subject to the expenses of the Plan in the maximum amount of $50,000.00 per year, pay to Farmers the difference between $650,000.00 and the amount distributed in such particular year in the following year. The Class 18 Claim shall not bear interest and does not include any accrued interest, which has been waived by the holders of ~~Class 18 claims~~the Claim. Payments received by Class 18 claimants pursuant to the Plan shall be deemed payment in full.

~~Notwithstanding the foregoing, Farmers Bank shall not receive, on account of its Class 18 Claims, a sum greater than $6,983,567.57. Furthermore, the District may reserve an amount it considers, in its sole discretion, as reasonable to pay the ongoing and expected expenses of the District, provided however that Class 18 shall receive a minimum of $500,000.00 per year commencing the year following the payment of Class 19 claims. The Debtors expect that distributions to Class 18 would be higher than the minimum amount.~~

~~Farmers Bank~~All distributions required to be made to the holders of the Class 18 Claims shall be made payable and delivered directly to Farmers Bank. Farmers Bank, in turn, may, in the exercise of its sole discretion, allocate payments received on account of Class 18 claims to ~~either or both of those claims described~~the various participants in ~~Class 1 or Class 7, on whatever percentages~~the GO Note and ~~terms~~the Mortgage Note as separately agreed to by Farmers Bank ~~deems advisable.~~ and the participants.

t. Class 19. Allowed General Unsecured Creditors. Class 19 consists of the claims of allowed general unsecured creditors. The Debtors filed Lists of Creditors as required by Section 924 of the Code. A Proof of Claim is deemed filed for any Claim that appears in the List of Creditors that was filed in this case, except a Claim that is scheduled as disputed, contingent, or unliquidated as to amount. If a creditor agrees with the amount of the Claim as listed by the Debtor and such Claim was not listed as disputed, contingent, or unliquidated, the holder of that Claim was not required to file a Proof of Claim. However, if (i) the Debtors did not list a holder's Claim, (ii) the Debtors listed such holder's Claim as disputed, contingent, or unliquidated, or (iii) the amount the Debtors listed for the holder's Claim varies from the amount claimed by the holder of such Claim, the holder of such Claim must have filed a Proof of Claim in the amount of such Claim in accordance with the Bar Date Order.

Each holder of an Allowed General Unsecured Claim shall receive a Pro Rata share of the Net Assets, as determined by the District pursuant to the terms of the Plan. ~~Class 19 General Unsecured Claims are subject to all statutory and contractual subordination grounds available to the Debtors.~~ Class 19 claims shall share in the Net Assets without regard to whether such holder's claim is against the District or the Corporation.

Notwithstanding any other provision of the Plan, any member of Class 19 ~~that is not otherwise~~ may elect to have its claim treated as a Class 20 claim. Such holder shall, on or before the Voting Deadline, elect treatment under Class 20 pursuant to the ballot for voting on the plan. Any holder of a Claim that would otherwise have been classified in Class 19, but for the timely election on the ballot by such holder to reduce the aggregate of all its Claims to a single Convenience Claim of $5,000 and participate in Class 20, shall be deemed to have irrevocably (i) waived any right to participate in Class 19 as to any and all Claims held by such holder and shall receive no distribution under Class 19, and (ii) released the Debtors from any and all liability for any amount in excess of $5,000 or any additional or other Claims.

Prior to or within fourteen (14) days after the Effective Date, the District shall distribute the Net Assets to Classes 1 through 17 as provided in the Plan, and pay all Allowed Administrative Claims. The District shall continue to assess the Hospital District Tax until the Class 19 Final Tax Year, and add any amounts received on account of such tax years to the Net Assets. The

District shall, from the Net Assets accrued pursuant to the Hospital District Tax levied during such time period, make payment to the members of Class 19 until members of Class 19 have received a maximum of 25% of their claims, which shall be deemed payment in full. Notwithstanding any of the foregoing, the District may reserve an amount it considers, in its sole discretion, as reasonable to pay the ongoing and expected expenses of the District.

The **"Class 19 Final Tax Year"** shall mean the calendar year ending December 31, 2017, or such later year as may be necessary to collect the Net Assets necessary to distribute the lower of $981,183.64 to holders of Class 19 Claims, or 25% of such claims.

The Debtors estimate that they will be able to distribute a minimum of $500,000 per year to members of Class 19, but the Debtors recognize that additional and unforeseen costs of administering the Plan may decrease such amount.

The following are the known members of Class 19, provided however that the amount of the claim listed below shall not limit the ability of any party in interest to object to the allowance of such claim as provided in the Plan:

Alpha General Imaging	$14,741.94
Associated Pathologists, LLC	$46,518.76
Bamill, LLC dba Office Equip. Rental Co	$33,534.71
Beckman Coulter, Inc.	$47,304.35
Bradley Arant Boult Cummings LLP	$19,529.00
Cardinal Health 200, LLC	$100,229.72
Casey County Hospital District	$10,968.76
Casey County Hospital District	$173,431.76
Coventry Health and Life Insurance Company	$167,939.00
Coventry Health and Life Insurance Company	$83,627.31
Danville Office Equipment	$7,206.24
De Lage Landen Financial Services	$6,608.60
Dressman Benzinger Lavelle PSC	$5,817.90
Fisher Scientific Co, LLC	$15,551.33
Frost Brown Todd, LLC	$116,782.85
Gary L. Partin, M.D.	$61,453.08
GE Healthcare Systems	~~$34,087.88~~577,959.92
George Cowan, John Thompson, Larry Noe	$28,000.00
Hospira Worldwide, Inc.	$26,352.83
Humana Inc. and its affiliates	$8,691.43
IES Med Plus of Kentucky, LLC	$35,855.94
Jane Todd Crawford Hospital	$10,216.42
Kentucky Unemployment Insurance Fund	$277,834.53
Key Shopping Center, LLC	$40,100.00
Laboratory Corporation of America	$37,824.19

MedAssets Net Revenue Systems, LLC	$10,490.00
Passport Health Communications	$6,835.17
Press Ganey	$22,274.00
Psychiatric Resource Partners	$141,367.83
Psychiatric Resource Partners	$1,299,329.26
~~Qaulity~~Quality Systems, Inc.	$554,831.95
Smith Drug Co. Div of J M Smith Corp	$15,771.38
Spectrum Health Partners, LLC	$160,943.48
Spectrum Health Partners, LLC	$100,000.00
T-System	$8,646.00
US Bank NA dba US Bank Equipment Finance	$23,627.77
WW GRAINGER	$7,203.10

Total Class 19 Claims $~~3,749,778.47~~4,305,400.51

The Debtors reserve defenses to all Claims, and the actual amount of Allowed Class 19 Claims may be lower. Class 19 Claims are subject to dilution if the amount of Allowed Class 19 Claims increases due to the rejection of executory contracts and unexpired leases. The Debtors have reviewed their executory contracts and unexpired leases, and estimate that additional Class 19 claims may be as high as $2,127,905.29. Such amount would increase the total sum of Class 19 claims to $6,433,305.80, and reduce the total distribution to 15% of such claims. The Debtors also reserve all rights to object to the Allowance of any Claims for damages arising from the rejection of executory contracts or unexpired leases.

u. Class 20. Convenience Class of Allowed General Unsecured Creditors. Class 20 consists of claims of allowed general unsecured creditors which would otherwise be classified as Class 19, but which claims are less than or equal to $5,000. The Debtors filed Lists of Creditors as required by Section 924 of the Code. A Proof of Claim is deemed filed for any Claim that appears in the List of Creditors that was filed in this case, except a Claim that is scheduled as disputed, contingent, or unliquidated as to amount. If a creditor agrees with the amount of the Claim as listed by the Debtor and such Claim was not listed as disputed, contingent, or unliquidated, the holder of that Claim was not required to file a Proof of Claim. However, if (i) the Debtors did not list a holder's Claim, (ii) the Debtors listed such holder's Claim as disputed, contingent, or unliquidated, or (iii) the amount the Debtors listed for the holder's Claim varies from the amount claimed by the holder of such Claim, the holder of such Claim must have filed a Proof of Claim in the amount of such Claim in accordance with the Bar Date Order.

As soon as practicable after the Effective Date of the Plan, the District shall distribute to each Holder of an Allowed Class 20 Claim a distribution totaling 50% of their claims. Class 20 claims shall share in the distribution without regard to whether such holder's claim is against the District or the Corporation.

The following are the members of Class 20:

~~AIG PROPERTY CASUALTY INC~~	~~$ -~~
Airgas USA, LCC South Division	$2,908.69
Arizant Healthcare Inc.	$2,124.40
Belegio & Associates, Inc	$269.08
C.R. Bard, Inc.	$1,449.00
Carstens, Inc.	$257.03
Chemaqua	$1,944.55
Coventry Health and Life Insurance Company	$518.74
Covidien	$3,889.14
GE Healthcare Systems - Datex Ohmeda	$449.14
Hill-Rom J36	$2,434.56
Immucor, Inc.	$2,993.37
Kentucky Utilities	$3,114.85
Maine Standards Co., LLC	$2,345.36
Phoenix Textile Corporation	$88.08
Pitney Bowes	$2,164.85
Pitney Bowes	$1,390.64
Pitney Bowes	$713.46
Pitney Bowes Global Financial Services LLC	$1,338.40
Pitney Bowes Inc	$4,059.60
Pitney Bowes Inc	$698.02
Tigerdirect, Inc.	$1,877.03
Tri-anim Health Services, Inc.	$604.72
Total Class 20 Claims	$37,~~632.71~~642.11

The Debtors estimate that approximately $37,~~632.71~~642.11 in non-duplicated, non-settled claims have been filed against the Debtors and would be treated as Class 20 claims, and Class 20 claims would therefore receive an aggregate payment of approximately $18,~~816.36~~821.06.

v. Class 21. Subordinated Claims. Class 21 consists of claims that would otherwise be allowed as Class 19 claims, but which would be subordinated pursuant to section 726(a)(3), (4), and (5) or section 510(c) of the Bankruptcy Code. Holders of Class 21 claims shall receive no distribution pursuant to the Plan on account of their claims. ~~All otherwise-classified claims are subject to all statutory and contractual subordination grounds available to the Debtors.~~ Class 21 includes, but is not limited to, ~~the~~any claim of the County of Adair, a/k/a the Adair County Fiscal Court.

w. Class 22. Claims Receiving No Distribution. Class 22 consists of those claims for which the Plan provides no distributions, but who may be otherwise eligible to receive a distribution. Holders of Class 22 claims shall receive no distribution pursuant to the Plan on account of their claims.

~~Class 22 includes any deficiency claims of Farmers Bank under, or any further claims related to, the Revenue Refunding Bond Anticipation Notes, Series 2010 No. R-1 dated October 14, 2010, or the Contract, Lease and Option dated October 1, 2010, other than as provided in Class 7, to the extent Farmers Bank does not allocate any payments made to Farmers pursuant to Class 18 to such Claim.~~

Class 22 also includes any claims of the District against the Corporation, or of the Corporation against the District.

3. Treatment of Executory Contracts and Unexpired Leases.

a. Generally. The Bankruptcy Code empowers debtors, subject to the approval of the Bankruptcy Court, to assume or reject the debtors' executory contracts and unexpired leases. An "executory contract" generally means a contract under which material performance other than the payment of money is due by the parties. If an executory contract or unexpired lease is rejected by the debtor, the rejection operates as a prepetition breach of such agreement. If an executory contract or unexpired lease is assumed by the debtor, the assumption obligates the debtor to perform under the agreement, and damages arising for any subsequent breach of the agreement are treated as administrative expenses.

b. Assumption. The Debtors intend to assume and assign specific executory contracts or unexpired leases pursuant to the Plan, and the Debtors reserves the right to amend the Plan to provide for such assumption. Assumption means that Debtors have elected to continue to perform the obligations under such contracts and unexpired leases, and to cure defaults of the type that must be cured under the Bankruptcy Code, if any. The other parties to such contracts and leases shall be compensated for any such defaults as provided in Class 17. If you object to the assumption of your unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of performance, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan, unless the Bankruptcy Court has set an earlier time.

Pursuant to the Order of the Bankruptcy Court entered October 23, 2013, any executory contract or unexpired lease assumed by the District shall be conclusively determined to be an obligation of the District and not an obligation of the Corporation, and any executory contract or unexpired lease assumed by the Corporation shall be conclusively determined to be an obligation of the Corporation and not an obligation of the District.

The Debtors reserve the right to seek assignment of any assumed lease or contract at any time prior to the Effective Date.

c. Rejection. Except with respect to executory contracts or unexpired leases that: (i) were previously assumed or rejected by order of the Bankruptcy Court, and (ii) are the subject of a pending motion to assume or reject, pursuant to section 365 of the Bankruptcy Code, on the Effective Date, each executory contract and unexpired lease entered into by Debtors

prior to the Petition Date that has not previously expired or terminated pursuant to its own terms shall be deemed rejected pursuant to Section 365 of the Bankruptcy Code; provided, however, that nothing in this section shall cause the rejection, breach or termination of any contract of insurance benefitting the Debtors and their successors and assigns and/or any option in connection with the purchase, transfer or disposition of real property. Further, the Plan shall be deemed a motion to assume such insurance contracts and any real property-related options. Nothing in the Plan shall be construed as an acknowledgement that a particular contract or agreement is executory or is properly characterized as a lease. The Confirmation Order shall constitute an Order of the Bankruptcy Court approving such rejections pursuant to Section 365 of the Bankruptcy Code, as of the Effective Date~~.~~, and terminating the automatic stay as of the Effective Date. The non-Debtor parties to any rejected personal property leases shall be responsible for taking all steps necessary to retrieve the personal property that is the subject of such executory contracts and leases and the Debtors shall bear no liability for costs associated with such matters.

Pursuant to the Order of the Bankruptcy Court entered October 23, 2013, any executory contract or unexpired lease rejected by either Debtor shall be without prejudice to the rights of any counterparty to file a claim for rejection damages in either the District's or the Corporation's case, and likewise without prejudice of any party-in-interest to object to such claim.

i) Deadline For The Assertion Of Rejection Damage Claims; Treatment of Rejection Damage Claims.

All proofs of Claim arising from the rejection of executory contracts or unexpired leases must be filed with the Bankruptcy Court and served on the Debtors no later than ~~thirty (30) days after the date on which notice of entry of the order approving the rejection is mailed.~~the Administrative Claims Bar Date, unless an earlier deadline has been or is established in an Order rejecting a specific contract. The Confirmation Order shall act as the order approving rejection for any executory contract or unexpired lease not otherwise specifically assumed or rejected by separate Order or pursuant to the Plan. Any Claim for which a proof of Claims is not filed and served within such time will be forever barred and shall not be enforceable against the Debtors or their assets, properties, or interests in property. Unless otherwise ordered by the Bankruptcy Court, all such Claims that are timely filed as provided herein shall be classified into Class 19 and treated accordingly.

D. Means For Execution And Implementation of the Plan.

1. Available Cash

On or as soon as practical following the Effective Date, an account to hold all cash of the Debtors received from the closing of the sale to the New Operator, together with all cash of the District on the closing date (together, the **"Net Assets"**) shall be opened by the District and funded with all cash of the Debtors, which funds shall constitute the Net Assets. Thereafter, from time to time, upon receipt of any additional assets or proceeds of assets, the District shall deposit such funds into the account and shall become part of the Net Assets. The confirmation order will appoint the District as the disbursing agent under the Plan for the purposes set forth in Section

944(b)(2) of the Bankruptcy Code.

An estimate of the Debtors' sources and uses of cash available to contribute to the Net Assets is attached hereto as Exhibit I. The Debtors anticipate that all other cash would be depleted during ordinary course operations prior to ~~December~~January 31, 2015. However, the Debtors may have more or less cash available to contribute to the Net Assets on the Effective Date.

2. Sale of Real and Personal Property

Pursuant to section 1123(a)(5)(D) of the Bankruptcy Code, the Debtors shall sell all real or personal property owned by the Debtors to T.J. Regional Health, Inc. or an affiliate thereof (the **"New Operator"**) pursuant to a private sale. Such property shall not include the cash or deposit accounts of the Debtors. The sale would be free and clear of all liens, claims, and interests. In exchange, the New Operator shall pay to the District the sum of $3,200,000.00, or such other amount as may be adjusted pursuant to the Asset Purchase Agreement, which shall be added to the Net Assets. A draft copy of the asset purchase agreement with the Debtors and the New Operator is attached hereto as Exhibit J (the **"Asset Purchase ~~Agreeement~~Agreement"**).

The reversal or modification on appeal of the Confirmation Order does not affect the validity of the sale pursuant to the Confirmation Order to the New Operator, whether or not the New Operator knew of the pendency of the appeal, unless such the Confirmation Order and such sale or lease is stayed pending appeal. The Confirmation Order shall provide that the New Operator consummated the sale in good faith.

3. Limitation of Competing Bids

The sale contemplated by the Plan is a private sale between the Debtors and the New Operator, to be consummated following prior failed attempts to sell the Hospital as a going concern. The Debtors and the New Operator have, and continue to, expend significant amounts of resources toward consummating the sale. A competing bid would introduce uncertainty and additional cost to the sale process.

Pursuant to 11 U.S.C. § 904, the Court may not interfere with the political or governmental powers of the Debtors, nor the property of the Debtors, without their consent. The Debtors do not consent to the sale of their property to any person other than the New Operator. To require the Debtors to submit their property for public auction would interfere with the property of the Debtors and interfere with the Debtors' political and governmental decisions about the person in whom the Debtors are entrusting with the responsibility to provide the public function of operating the County's Hospital and continuing to provide hospital services to the community.

The Plan finds that there is cause to disallow any competing bids to the extent such bids would otherwise be required.

4. Limitation of Credit Bids

The sale is not required to be, and is not, subject to credit bids as provided by 11 U.S.C. §

1129(b)(2), made applicable herein pursuant to 11 U.S.C. §§ 901 and 943(b)(1). No secured creditor may credit bid in connection with the sale to the New Operator. 11 U.S.C. § 1129(b)(2)(A)(ii) applies only to sales "subject to section 363(k)." 11 U.S.C. § 363, in its entirety, has not been incorporated into Chapter 9, *see* 11 U.S.C. § 901, and the sale pursuant to the Plan is not one subject to 11 U.S.C. § 363(k).

Furthermore, pursuant to 11 U.S.C. § 904, the Court may not interfere with the political or governmental powers of the Debtors, nor the property of the Debtors, without their consent. The Debtors do not consent to the sale of their property to any person other than the New Operator. To require the Debtors to submit their property for public auction would interfere with the property of the Debtors and interfere with the Debtors' political and governmental decisions about the person in whom the Debtors are entrusting with the responsibility to provide the public function of operating the Hospital and continuing to provide hospital services to the community. No secured creditor has either the expressed intent or the demonstrated ability to operate the Hospital or provide public services to the people of the County, and this limitation is necessary to ensure the continuance of municipal services to the community.

No creditor holds a lien on all property to be sold pursuant to the Plan. If the sale required a complicated valuation process in order to determine the portion of the any bid that may be a credit bid, and which portion would be required to be in cash, this process would cause unnecessary delay and uncertainty that would impair the Debtors' ability to ultimately close the sale with the New Operator.

The Plan finds that there is cause to disallow any credit bids to the extent such bids would otherwise be required.

5. Assignment of Executory Contracts and Unexpired Leases

Pursuant to Section 1123(b)(2) of the Bankruptcy Code, the Debtors shall assume and assign certain executory contracts and unexpired leases to the New Operator. The New Operator shall have the right to identify executory contracts and unexpired leases of the Debtors for assumption and assignment at any point prior to five days prior to the Voting Deadline. To the extent an executory contract or unexpired lease other than the Provider Agreements is assumed and assigned pursuant to the Plan, the Debtors shall have no further obligation thereon or liability therefore, including for any action or payment required in connection with such assumption or assignment. Any assumption obligations or cure payments under any contracts or leases assigned to the New Operator shall be the responsibility solely of the New Operator.

6. Assignment of Provider Agreements

Pursuant to Section 1123(b)(2) of the Bankruptcy Code, on the Effective Date the Debtors shall assume and assign to the New Operator their (a) provider agreements with administrative identifiers 18-0149, 18-3998, 18-3994, 18-3446 and 18-3970 under the Medicare program with the Centers for Medicare & Medicaid Services (**"CMS"**), and (b) provider agreements with the Kentucky Cabinet for Health and Family Services (**"Cabinet"**) under the Medicaid program (collectively, **"Provider Agreements"**). The District will make the a payment to CMS and the

Cabinet in full and final satisfaction and settlement of any claims for the cure of any defaults or compensation for any actual pecuniary loss arising under any of the Provider Agreements prior to the Effective Date, and as adequate assurance of future performance of such Provider Agreements by the New Operator. The assumption payment for the Cabinet shall be an amount specified for payment in Class 14. The assumption payment for CMS shall be an amount specified for payment in Class 15. With the exception of the assumption payments, upon and following the Effective Date, no further or additional amounts are or shall become due or payable, whether by recoupment, offset, reimbursement or otherwise, by the Debtors to CMS or the Cabinet on account of any transaction, occurrence, act or omission arising prior to the Effective Date under any of the Provider Agreements~~.~~ or by a violation of federal or state Laws regulating health care fraud, including but not limited to the federal Anti-Kickback Law, 42 U.S.C. §1320a-7b, the Stark I and II Laws, 42 U.S.C. §1395nn, as amended, and the False Claims Act, 31 U.S.C. §3729, et seq. For the avoidance of doubt, the assumption payment shall include and satisfy the District's outstanding payment obligations under the CMS Repayment Agreement for the $334,217.45 overpayment due pursuant to the June 30, 2010, notice of program reimbursement. In addition to all claims against the Debtors by the Commonwealth of Kentucky and the United States of America, it shall specifically satisfy any of the District's 1) Medicaid Disproportionate Share Hospital (DSH), whether for audited fiscal years ending June 30, 2010, 2011 and 2012, or the unaudited fiscal years ending June 30, 2013, 2014, 2015 and 2016; 2) Recovery Audit Contractor's (RAC) audits by Medicare, Medicaid and commercial carriers; 3) Notices of Re-opening Cost Reports, including for fiscal year ending June 30, 2011, 2012 and 2013; 4) Notice of Provider Reimbursement (NPR) for open cost reports for fiscal year ending June 30, 2009, 2011, 2012, 2013, 2014, 2015 and 2016; and 5) Meaningful Use Payments for fiscal year ending June 30, 2013, 2014 and 2015.

In the event that an amount is determined to be due to the Debtors pursuant to the Provider Agreements for any underpayment that arose prior to the Effective Date, such amount may be retained by CMS or the Cabinet.

The reimbursement rates proposed by the Cabinet, whether or not presently subject to appeal by the District, shall be accepted by the District and deemed to be the final reimbursement rates pursuant to such Provider Agreements. The New Operator shall accept assignment of the Provider Agreements pursuant to such agreed reimbursement rates.

The New Operator is an intended independent third party beneficiary of this provision. The New Operator's willingness to perform its obligations pursuant to the Plan is conditioned upon the assignment of the Provider Agreements as provided herein.

7. Future Tax Allocation

Following the Effective Date, the District would continue to assess the Hospital District Tax ~~until December 31, 2025.~~at the present rate of 10 cents per $100.00 of valuation until all payments to be made pursuant to the Plan are made in full. The District shall add amounts received from the Hospital District Tax (**"Tax Allocation"**) to the Net Assets for distribution pursuant to the Plan. Notwithstanding the foregoing, the District shall deposit all money received from the Hospital District Tax into an account to hold money received only on account of the

Hospital District Tax, which account shall not hold or be comingled with money received from any other source. The Plan binds the District to insure the timely implementation and collection of the Tax, and requires the payment of the Tax Allocation whether or not the New Operator continues to operate the Hospital. The Bankruptcy Court would retain jurisdiction to implement and enforce the terms of the Plan, if necessary.

The District may, but shall not be required by the Plan, continue to implement the Hospital District Tax at the same or different rate following ~~December 31, 2025~~the completion of all payments required to be made pursuant to the Plan, but shall not be required to add such amounts to the Net Assets or distribute them pursuant to the Plan.

8. Handling and Collection of Net Assets and Distribution of Net Assets

The District shall hold the Net Assets and act as the disbursing agent. In addition, from and after the Effective Date, except as otherwise provided in the Plan or in the Confirmation Order, the District shall be free to operate without any limitation or restriction by, and without any requirement to comply with, the Bankruptcy Code or Bankruptcy Rules. All property realized or obtained by the District shall be added to the Net Assets and such funds shall be held as the Net Assets. All Net Assets shall be held by the District and shall be distributed to Creditors in accordance with the Plan, and section 1123 of the Bankruptcy Code, to the extent made applicable herein by section 901(a) of the Bankruptcy Code.

9. Substantive Consolidation

Holders of Claims against the Debtors shall be substantively consolidated. Many of the Debtors' contracts and leases were entered into in the name of "Westlake Regional Hospital" or "Westlake Cumberland Hospital." The Kentucky Secretary of State shows both of these names are assumed names of the Corporation. The District, however, is the entity that has operated the Hospital, which has employed the employees, and which holds the Provider Agreements. Nevertheless, there are certain contracts that are entered into by "the Adair County Hospital District d/b/a Westlake Regional Hospital," or similar nomenclature. Furthermore, the District believes that some contracts and leases entered into under the name of Westlake Regional Hospital were in fact contracts of the District. For example, the contract to provide administrative services for the employees at the Hospital, who are employed by the District, was entered into by Westlake Regional Hospital. It follows from the employment that contracts related to employment benefits should go to the same entity. However, other contracts and leases may not be as clear.

Additionally, some proofs of claim appear to show the Corporation as having incurred the claim. This is doubtless because creditors attempting to find the legal name of their obligor would have resorted to the Secretary of State, which compiles the records of the Corporation but not of the District. Many claimants, still unsure of their obligor, filed proofs of claim against both Debtors.

Failing to substantively consolidate would harm innocent unsecured creditors who dealt with the Debtors, but whose claims the Debtors may be able to show are against the Corporation only. In the absence of substantive consolidation, such claims would likely receive no payment. Only capital assets, particularly the real estate and certain equipment, are held in the name of the

Corporation, which are secured by various Secured Claims. These creditors would not have rights to receive any portion of the Hospital District Tax, which is intended to be used to pay unsecured claims. It would cause the Debtors to incur additional expense objecting to claims as being filed against the improper Debtor, require the Debtors to value any other claims and defenses one Debtor may have against the other, and require the Debtors to allocate each dollar to be received in collection to the sale to each piece of property. At least with respect to tangible personal property, such an action would also require review of thirty-five years of records to determine the name of the Debtor on each invoice or contract and, when a legal name is not used or cannot be found, establish a regime for allocating such property between the Debtor and the Corporation. The Debtors believe such a system is unworkable, and any attempts to implement it would ultimately reduce the amounts to be distributed to creditors pursuant to the Plan.

Substantive consolidation does have the effect of potentially impairing holders of unsecured claims, as it expands the pool of unsecured creditors with which all will share.

Pursuant to the Plan, all claims against the Debtors will be paid pursuant to the Plan from the Net Assets, without regard to whether any of the Net Assets are attributable to property of the Corporation or the District and without regard to whether a Claim is held against the Corporation or the District.

10. Litigation

Except as otherwise provided in the Plan or the Confirmation Order, all rights of action are released and waived.

11. Payment of Plan Expenses

All Plan Expenses may be paid by the District without further notice to creditors or approval of the Bankruptcy Court. The District may delegate its duties pursuant to the Plan, including its role as disbursement agent, and pay compensation for services rendered in connection with such delegation.

12. Distribution of Net Assets

The Net Assets shall be used to satisfy the payments required under the Plan, provided that the District shall only distribute Net Assets to the Holders of Allowed Claims in such amounts and at such times as are set forth in the Plan. No payments or distributions shall be made by the District on account of Disputed Claims unless and to the extent such Claims become Allowed Claims. The Net Assets allocated to Disputed Claims will not be distributed but will be reserved by the District in accordance with the Plan pending resolution of such Disputed Claims.

13. Full and Final Satisfaction

Commencing upon the Effective Date, the District shall be authorized and directed to distribute the amounts required under the Plan to the Holders of Allowed Claims according to the provisions of the Plan. Upon the Effective Date, all Debts of the Debtors shall be deemed fixed

and adjusted pursuant to the Plan and the Debtors shall have no liability on account of any Claims or Interests except as set forth in the Plan. All payments and all distributions made by the District under the Plan shall be in full and final satisfaction, settlement and release of all Claims against the Debtors.

14. Distribution Procedures

Except as otherwise agreed by the Holder of a particular Claim, or as provided in the Plan, all amounts to be paid by the Debtors under the Plan shall be distributed in such amounts and at such times as is reasonably prudent. On the Effective Date, or as soon as practicable thereafter, the subject to the Plan, the District shall: (i) marshal all then available Net Assets; (ii) to the extent of unencumbered Cash or Cash distributable to the Holders of Allowed Claims, establish and fund an account pursuant to the Plan; (iii) promptly pay the Holders of (a) Allowed Administrative Claims, (b) Allowed Professional Fee Claims, and (c) the Holders of Allowed Claims as provided for under the Plan; and (iv) make interim and final distributions of Net Assets to the Holders of Allowed Class 18 and Class 19 Claims from the Net Assets in the amounts and according to the priorities set forth in the Plan. Notwithstanding any provision to the contrary in the Plan, distributions may be made in full or on a Pro Rata basis depending on: (x) the amount of the Allowed Claim, (y) the then available Net Assets, and (z) the then anticipated Net Assets. The District shall make the Cash payments to the Holders of Allowed Claims: (aa) in U.S. dollars by check, draft or warrant, drawn on a domestic bank selected by the District in its sole discretion, or by wire transfer from a domestic bank, at the option, and (bb) by first-class mail (or by other equivalent or superior means as determined by the District).

15. Resolution of Disputed Claims

All objections to Claims shall be filed and served not later than ninety (90) days following the Effective Date, unless extended for cause by the Bankruptcy Court (the **"Claims Objection Deadline"**). If an objection is not timely filed, any remaining Disputed Claims shall be deemed to be Allowed Claims for purposes of the Plan. The Plan does not limit the standing of any party-in-interest to object to a Claim. Unless a party other than a Debtor has filed an objection, the Debtors are authorized to settle, or withdraw any objections to, any Disputed Claim following the Effective Date without further notice to Creditors or authorization of the Bankruptcy Court, in which event such Claim shall be deemed to be an Allowed Claim in the amount compromised for purposes of the Plan. If a party other than a Debtor has filed an objection to a Claim, the Debtors are authorized to settle the Disputed claim following the Effective Date pursuant to Rule 9019 of the Bankruptcy Rules, in which event such Claim shall be deemed to be an Allowed Claim in the amount compromised for purposes of the Plan. Under no circumstances will any distributions be made on account of Disallowed Claims.

16. Net Asset Account

On or as soon as practicable after the Effective Date, the District shall: (a) to the extent of any Cash or, where applicable, unencumbered Cash, create and fund the Net Asset Account, and (b) periodically deposit the Cash from the Net Assets into the Net Asset Account to satisfy the obligations created under the Plan. The Net Asset Account shall contain the following four sub-

accounts: (i) Secured, (ii) Administrative Claims, (iii) Plan Expenses, and (iv) Allowed Unsecured Claims. A sub-account need not be a deposit account with a separate account number, but may be comingled with other sub-accounts in the Net Asset Account, provided that the District accounts for each sub-account separately. Each sub-account within the Net Asset Account shall contain an amount of Cash deemed sufficient by the District for the payment of Allowed Claims in accordance with the priorities and amounts set forth in Article 3, all anticipated Plan Expenses, and Disputed Claims. The District shall be authorized to transfer funds among sub-accounts as necessary to replenish any sub-accounts as and when distributions are made to Creditors. All Plan Expenses may be deducted and paid from sub-account (iii) without further order of the Bankruptcy Court. Subject to the priorities established under the Bankruptcy Code, the District shall periodically transfer all earnings and interest income on the Net Asset Account for deposit to and distribution from sub-account (iv). Unless otherwise provided in the Confirmation Order, the Net Asset Account may be invested by the District in a manner consistent with the objectives of section 345(a) of the Bankruptcy Code and in his reasonable and prudent exercise of discretion. The District shall have no obligation or liability to beneficiaries in connection with such investments in the event of any unforeseeable insolvency of any financial institution where such funds are held.

17. Reserve Provisions for Disputed Claims

The District shall implement the following procedures with respect to the allocation and distribution of Cash in the Net Asset Account and each sub-account and reserve therein, after payment of all senior Claims, to the Holders of Disputed Claims that become Allowed Claims:

(i) Cash respecting Disputed Claims shall not be distributed, but, if necessary, shall be withheld by the District in the relevant sub-account as a reserve in an amount equal to the amount of the distributions that would otherwise be made to the Holders of such Claims if such Claims had been Allowed Claims, based on the Disputed Claims Amount.

(ii) All Holders of Allowed Unsecured Claims shall be entitled to receive interim distributions under the Plan. No distributions may be made to the Holders of Allowed Unsecured Claims unless adequate reserves are established for the payment of Disputed Claims, and sufficient funds are also reserved for payment of expected Plan Expenses. Upon the Final Resolution Date, after payment of all senior Claims, all amounts (if any) remaining in sub-accounts (i-iv) of the Net Asset Account, after reservation of an appropriate amount for anticipated Plan Expenses in sub-account (iii), shall be transferred to sub-account (iv) for final distribution to the Holders of Allowed Class 19 Claims.

(iii) Where only a portion of a Claim is Disputed, at the option of the District, interim or partial distributions may (but are not required to) be made with respect to the portion of such Claim that is not Disputed.

(iv) For the purposes of effectuating the provisions of the Plan, the Bankruptcy Court may estimate the amount of any Disputed Claim pursuant to section 502(c) of the Bankruptcy Code, in which event the amounts so fixed or liquidated shall be deemed to be Allowed Claims pursuant to section 502(c) of the Bankruptcy Code for purposes of distribution under the Plan. In

lieu of estimating the amount of any Disputed Claim, the Bankruptcy Court or the District may determine the Disputed Claims Amount to be reserved for such Disputed Claim in the appropriate sub-account of the Net Asset Account, or such amount may be fixed by agreement in writing by and between the Debtor and the Holder thereof.

(v) When a Disputed Claim becomes an Allowed Claim, there shall be distributed to the Holder of such Allowed Claim, in accordance with the provisions of the Plan, Cash equal to a Pro Rata Share of the Cash set aside for Disputed Claims within the applicable sub-account of the Net Asset Account, but in no event shall such Holder be paid more than the amount that would otherwise have been paid to such Holder if the Claim (or the Allowed portion of the Claim) had not been a Disputed Claim.

(vi) Interim distributions may be made from time to time to the Holders of Allowed Claims prior to the resolution by Final Order or otherwise of all Disputed Claims, provided that interim distributions shall be made no less frequently than January 31 of each year following Effective Date until January 31, 2027, and further provided the aggregate amount of Cash to be distributed at such time from the Net Asset Account is practicable in comparison to the anticipated costs of such interim distributions. Notwithstanding the foregoing, subject to Section 5(P) of the Plan, no interim distribution shall be made to any Creditor whose distribution would be less than $50.

(vii) No Holder of a Disputed Claim shall have any Claim against the Cash reserved with respect to such Claim until such Disputed Claim shall become an Allowed Claim. In no event shall any Holder of any Disputed Claim be entitled to receive (under the Plan or otherwise) from the Debtor or the Net Asset Account any payment (x) which is greater than the amount reserved for such Claim by the Bankruptcy Court pursuant to the Plan, or (y) except as otherwise permitted under the Plan, of interest or other compensation for delays in distribution. In no event shall the Debtors have any responsibility or liability for any loss to or of any amount reserved under the Plan.

(viii) To the extent a Disputed Claim ultimately becomes an Allowed Claim in an amount less than the Disputed Claim Amount reserved for such Disputed Claim, then the resulting surplus of Cash shall be retained in the Net Asset Account and shall be distributed among the Holders of Allowed Claims until such time as each Holder of an Allowed Claim has been paid the Allowed amount of its Claim.

~~16.~~18. Allocation of Distributions

Distributions to any Holder of an Allowed Claim shall be allocated first to the principal amount of any such Allowed Claim, as determined for federal income tax purposes, and then, to the extent the consideration exceeds such amount, to the remainder of such Claim comprising interest, if any (but solely to the extent that interest is an allowable portion of such Allowed Claim).

~~17.~~19. Rounding

Whenever any payment of a fraction of a cent would otherwise be called for, the actual

distribution shall reflect a rounding of such fraction down to the nearest cent.

~~18.~~20. No Interim Cash Payments of $50 or Less on Account of Allowed Claims

If an interim distribution to be received by the Holder of an Allowed Claim would be less than $50, notwithstanding any contrary provision in the Plan, at the discretion of the District, no such interim payment will be made to such Holder, and such Cash shall be held for such Holder until the earlier of (i) the next time an interim distribution is made to the Holders of Allowed Claims (unless the distribution would still be less than $50), or (ii) the date on which final distributions are made to the Holders of Allowed Claims.

~~19.~~21. Unclaimed Property

Any entity which fails to claim any Cash within 90 days from the date upon which a distribution is first made to such entity shall forfeit all rights to any distribution under the Plan. Upon forfeiture, such Cash (including interest thereon) shall be deposited into the Net Asset Account to be distributed to the Holders of Allowed Claims in the manner described in Section 5(M)(viii) for distribution of excess amounts. Entities which fail to claim Cash shall forfeit their rights thereto and shall have no claim whatsoever against the Debtors or any Holder of an Allowed Claim to whom distributions are made by the District.

~~20.~~22. Setoffs

Nothing contained in the Plan shall constitute a waiver or release by the Debtors of any right of setoff or recoupment the Debtors may have against any Creditor.

~~21.~~23. No Distributions on Late-Filed Claims

Except as otherwise provided in a Final Order of the Bankruptcy Court, any Claim as to which a Proof of Claim was first filed after the applicable Bar Date shall be a Disallowed Claim, and the District shall not make any distribution to a Holder of such a Claim; provided, however, that to the extent such Claim was listed in the Schedules (other than as contingent, disputed, or unliquidated) and would be an Allowed Claim but for the lack of a timely proof of Claim, the District shall treat such Claim as an Allowed Claim in the amount in which it was so listed.

~~22.~~24. Withholding Taxes

Pursuant to section 346(f) of the Bankruptcy Code, the District shall be entitled to deduct any federal, state or local withholding taxes from any Cash payments made with respect to Allowed Claims, as appropriate. From and as of the Effective Date, the District shall comply with all reporting obligations imposed on it by any Governmental Unit in accordance with applicable law with respect to such Withholding Taxes. As a condition to making any distribution under the Plan, the Debtors, if on the Effective Date, or the District, if on or after the Effective Date, may require that the Holder of an Allowed Claim provide such Holder's taxpayer identification number and such other information and certification as may be deemed necessary for the Debtors, if on the Effective Date, and the District, if on or after the Effective Date, to comply

with applicable tax reporting and withholding laws.

~~23.~~25. De Minimis Distributions

Notwithstanding anything to the contrary therein, the District shall not be required to make a distribution to any Creditor if the dollar amount of the distribution is so small that the cost of making that distribution exceeds the dollar amount of such distribution.

~~24.~~26. Books and Records

On the Effective Date, to the extent reasonably necessary for the District to fulfill its obligations pursuant to the Plan, the Debtors and the New Operator shall make available all of the Debtors' books and records, in whatever form, manner or media, including, without limitation, the specific provisions and presentation to the District of all passcodes for security systems and computers, keys, keycards, and notice letters to landlords, warehousemen or other relevant parties.

~~25.~~27. Dissolution of the Committee

Upon the occurrence of the Claims Objection Deadline, or the occurrence of such later time at which all Disputed Claims have been Allowed or Disallowed, the Committee shall be dissolved without further action by the Court, and the members of the Committee shall be released and discharged ~~of their~~ from any further rights and duties ~~and obligations to~~in connection with the ~~Creditors~~Chapter 9 Case. Any ~~remaining~~ Professional Fees ~~Claim~~ of the Committee incurred on and after December 1, 2015, shall upon request be submitted to the District~~, whereupon it take priority over Class 18 and Class 19 Claims for distribution until paid in full.~~ for review. The District may, within thirty (30) days ~~upon~~following receipt of the statements for such Professional Fees ~~Claim~~, file an objection with the Court to the reasonableness of the same. In the event of such objection, the Committee's Professional Fees ~~Claim~~ shall be Allowed and ~~take priority described herein~~paid as provided by the Plan to the extent the District does not object. The Professional Fees of the Committee shall be paid in the manner set forth in Section VI(C)(2)(a) of the Plan. If the available Net Assets of the District are not sufficient to make such payments on the dates required by the Plan, the District shall pay such amounts from Net Assets otherwise available for distribution to the holders of Claims in Class 19 of the Plan, provided that, the Class 19 Final Tax Year shall be extended to the extent necessary to collect those Net Assets required for distribution under Section VI(C)(2)(t) of the Plan.

~~26.~~28. Ombudsman

On the Effective Date, pursuant to the Confirmation Order, the Court shall be deemed to appoint the Ombudsman to monitor and enforce the District's implementation of and performance under the Plan. The Ombudsman shall be vested with the standing of a party in interest on behalf of the holders of Class 20 and 19 claims pursuant to Section 1128 of the Bankruptcy Code for the purposes contemplated by the Plan and Section 945 of the Bankruptcy Code. The Ombudsman shall be authorized to file, on behalf of unsecured creditors generally, appropriate motions or applications in the Court related to the District's performance under the Plan. The appointment of the Ombudsman shall terminate, without further notice to creditors or order of the Court, on

the 30th calendar day following the date all allowed Class 19 claims have been paid according to the Plan. The reorganized District shall provide a written notice to the Ombudsman certifying the date that all allowed Class 19 claims have been finally paid. The Ombudsman shall be paid a fixed fee in an amount mutually acceptable to the District and the Committee, not to exceed $20,000 (paid in two installments on or as soon as practicable following the Effective Date and the first anniversary of the Effective Date), for its services from the Effective Date through the date of discharge. The fee shall be payable as a post-confirmation Plan expense of the District and shall be approved under Section 943(b)(3) of the Bankruptcy Code pursuant to the Confirmation Order.

29. Annual Report to Class 18 Creditors

The Debtors shall timely provide audited financial reports, as and when such reports are final, to the holders of Class 18 Claims in every year until the Class 18 Claims have been paid in full.

30. Settlement of all Pending Contested Matters and Adversary Proceedings

All pending contested matters or adversary proceedings in the Chapter 9 Cases shall be deemed withdrawn or dismissed, as applicable, in consideration of the settlements reflected in the Plan, provided that, all orders entered in such contested matters or adversary proceedings shall remain in full force and effect according to their respective terms.

E. Rights of Action.

The Plan provides that the Debtors shall waive and release all of the Debtors' claims, causes of action, rights of recovery, rights of offset, recoupment, rights to refunds, whether arising by operation of bankruptcy or non-bankruptcy law, other than payments owed to the Debtors for medical services rendered by the Debtors in the ordinary course of business (collectively, the **"Rights of Action"**). Such waiver and release does not act as a waiver or release of any Rights of Action the Debtors may hold against any Claim to which the Debtors timely object.

F. Amount and Method of Payment of Administrative Claims.

The distributions to holders of Allowed Administrative Claims will be made prior to or within fourteen (14) days after the Effective Date, by the District unless such Claim or Claims are not yet an Allowed Claim(s) by order of the Bankruptcy Court where required.

G. Distributions.

The District may retain one or more agents to perform or assist it in performing the distributions to be made pursuant to the Plan, which agents may serve without bond. The District may provide reasonable compensation to any such agent(s) without further notice or Bankruptcy Court approval. All distributions to any holder of an Allowed Claim shall be made at the address of such holder as set forth in the books and records of the Debtors or their agents, unless the District has been notified by such holder in a writing that contains an address for such holder different

from the address reflected.

1. Undeliverable Distributions.

If any distribution to any claim holder is returned to the District or its agent as undeliverable, no further distributions shall be made to such holder unless and until the District is notified in writing of such holder's then-current address. Unless and until the District is so notified, such distribution shall be deemed to be **"Unclaimed Property."** Unclaimed Property shall be set aside and held in a segregated account to be maintained by the District pursuant to the terms of the Plan. On the ~~first~~second anniversary of the Effective Date, the District will file with the Bankruptcy Court a list of Unclaimed Property, together with a schedule that identifies the name and last-known address of holders of the Unclaimed Property; the District otherwise will not be required to attempt to locate any such entity. On the ~~second~~third anniversary of the Effective Date, all remaining Unclaimed Property and accrued interest or dividends earned thereon will be remitted to and supplement the Net Assets. Such claim holder shall not be entitled to any further distribution under the Plan.

2. Distributions of Cash.

Any payment of Cash to be made by the District or its agent pursuant to this Plan shall be drawn on a domestic bank or by wire transfer, at the sole option of the District.

3. Timeliness of Payments.

Any payments or distributions to be made pursuant to the Plan shall be deemed to be timely made if made within fourteen (14) days after the dates specified in the Plan. Whenever any distribution to be made under the Plan shall be due on a day that is a Saturday, Sunday, or legal holiday, such distribution instead shall be made, without interest, on the immediately succeeding day that is not a Saturday, Sunday, or legal holiday, but shall be deemed to have been made on the date due.

H. No Post-Petition Accrual.

Unless otherwise specifically provided in the Plan or allowed by order of the Bankruptcy Court, the Debtors will not be required to pay to any holder of a claim any interest, penalty or late charge accruing with respect to such claim on or after the Petition Date.

I. Conditions Precedent to Confirmation

Confirmation of the Plan shall not occur unless each of the following conditions precedent has occurred:

1. The Bankruptcy Court has approved the Disclosure Statement by a Final Order; and

2. The Bankruptcy Court has determined that all statutory requirements for Confirmation have been satisfied.

J. Retention of Jurisdiction

From and after the Confirmation Date, the Bankruptcy Court shall retain such jurisdiction as is legally permissible, including, but not limited to, for the following purposes:

i. To hear and determine any and all objections to the allowance of a Claim, actions to equitably subordinate a Claim, approval of any necessary claims reconciliation protocols, or any controversy as to the classification of a Claim in a particular Class under the Plan;

ii. To administer the Plan and the Net Assets and the Hospital District Tax;

iii. To liquidate any Disputed Claims;

iv. To hear and determine any and all adversary proceedings, contested matters or applications pending on the Effective Date or otherwise relating to, arising from, or in connection with the Cases;

v. To hear and determine any and all motions and/or objections to fix and allow any Claims arising therefrom;

vi. To hear and determine any and all applications by Professionals for an award of Professional Fees;

vii. To enable the District to commence and prosecute any litigation which may be brought after the Effective Date;

viii. To interpret and/or enforce the provisions of the Plan and the injunction provided for in the Plan and to determine any and all disputes arising under or regarding interpretation of the Plan or any agreement, document or instrument contemplated by the Plan;

ix. To enter and implement such orders as may be appropriate in the event Confirmation is for any reason stayed, reversed, revoked, modified or vacated;

x. To modify any provision of the Plan to the extent permitted by the Bankruptcy Code and to correct any defect, cure any omission, or reconcile any inconsistency in the Plan or in the Confirmation Order as may be necessary to carry out the purposes and intent of the Plan;

xi. To enter such orders as may be necessary or appropriate in furtherance of Confirmation and the successful implementation of the Plan and to determine such other matters as may be provided for in the Confirmation Order or as may be authorized under the provisions of the Bankruptcy Code; and

xii. To close the Chapter 9 Case when administration of the Plan and the case has been completed.

VII. VOTING PROCEDURES.

A. Ballots and Voting Deadline.

A Ballot to be used to accept or reject the Plan for creditors whose Claims are Impaired under the Plan and who are not deemed to reject the Plan accompanies this Disclosure Statement.

Except to the extent allowed by the Bankruptcy Court, Ballots received after the Voting Deadline may not be accepted or used by or against the Debtor in connection with the Debtor's request for Confirmation of the Plan or any modification thereof.

B. Claimants Entitled to Vote to Accept or Reject the Plan.

1. Allowance for Voting Purposes. All creditors holding Allowed Claims in an Impaired Class that are not deemed to reject the Plan may vote to accept or reject the Plan. Generally, a claim is deemed "allowed" for voting purposes if a proof of claim was timely filed, and no objection to the claim has been filed that has not been resolved. If such an objection has been filed, the Claimant cannot vote on the Plan unless the Bankruptcy Court, after notice and hearing, either overrules the objection or temporarily allows the claim for voting purposes pursuant to Bankruptcy Rule 3018(a). Thus, the definition of "Allowed Claim" used in the Plan for purpose of determining whether creditors are entitled to receive distributions is different from that used by the Bankruptcy Court to determine whether a particular claim is "allowed" for purposes of voting. Holders of claims are advised to review the definitions of "Allowed," "Claim," and "Disputed" set forth in Article I of the Plan to determine whether they may be entitled to vote on, and/or receive distributions under, the Plan.

2. Impaired Classes of Claims. As noted above, the holder of a Claim has the right to vote on the Plan if that claim is allowed and classified into a Class that is Impaired under the Plan and that is not deemed to reject the Plan. A Class is Impaired if the Plan alters the legal, equitable, or contractual rights of the members of that Class with respect to their claims or interests. The Debtor believes that all Classes are Impaired under the Plan.

3. Claimants Not Entitled to Vote. The holders of the following types of claims are not entitled to vote on the Plan: (a) Claims that have been disallowed; (b) Claims that are subject to a pending objection and which have not been allowed for voting purposes pursuant to Bankruptcy Rule 3018(a); (c) Claims that are not impaired or are deemed to reject the Plan; and (d) Claims entitled to priority pursuant to section 507(a)(2) of the Bankruptcy Code (defined as **"Allowed Administrative Claims"** in the Plan). Holders of Allowed Administrative Claims are not entitled to vote because such claims are not classified and are required to receive certain treatment specified by the Bankruptcy Code. Any party that disputes the characterization of its claim as unimpaired, however, may request that the Bankruptcy Court find that its Claim is

Impaired in order to obtain the right to vote on the Plan.

C. Vote Required for Class Acceptance.

As part of the Confirmation Hearing, the Bankruptcy Court will determine whether the Impaired voting classes have accepted the Plan by determining whether sufficient acceptances have been received from the holders of Allowed Claims in such Classes. An Impaired Class of Claims will be determined to have accepted the Plan if the holders of Allowed Claims in the Class casting votes in favor of the Plan (i) hold at least two-thirds of the allowed amount of the Allowed Claims of the holders in such Class who vote, and (ii) constitute more than one-half in number of holders of the Allowed Claims in such Class voting on the Plan. Ballots of holders of Impaired Claims that are signed and returned, but not expressly voted for either acceptance or rejection of the Plan, may be disqualified or counted as Ballots for the acceptance of the Plan if permitted by the Bankruptcy Court. Except as may be allowed by the Bankruptcy Court, a Ballot accepting the Plan may not be revoked.

D. Possible Reclassification of Creditors.

The Debtors are required pursuant to Section 1122 of the Bankruptcy Code to place Claims in Classes that contain Claims substantially similar to each other. While the Debtors believe they have classified all Claims in compliance with Section 1122, it is possible a creditor may challenge the Debtors' classification of such creditor's Claim. If the Debtors are required to reclassify any Claims under the Plan, the Debtors, to the extent permitted by the Bankruptcy Court, intends to continue to use the acceptances received from any creditor pursuant to the solicitation of acceptance using this Disclosure Statement for the purpose of obtaining the approval of the Class or Classes of which such creditor is ultimately deemed a member. Any reclassification of Claims could adversely affect the Class in which such Claims were initially a member, or any other Class under the Plan, by changing the composition of such Class and the required vote thereof on approval of the Plan. Further, a reclassification of Claims could necessitate the re-solicitation of votes.

VIII. CONFIRMATION OF THE PLAN.

A. Confirmation Hearing.

The Bankruptcy Code requires that the Bankruptcy Court, after notice, hold a Confirmation hearing. The Bankruptcy Court may adjourn the Confirmation hearing from time to time without further notice except for an announcement made at the Confirmation hearing.

B. Requirements for Confirmation of the Plan.

At the Confirmation hearing, the Bankruptcy Court will determine whether the requirements of Section 943 of the Bankruptcy Code have been satisfied in which event the Bankruptcy Court will enter an order confirming the Plan. Some of the principal requirements include:

1. **Best Interests Test**

One of the determinations that the Bankruptcy Court must make before confirming the Plan is whether the Plan is in the best interests of creditors and is feasible. There are very few authorities on what constitutes the best interests of creditors under chapter 9 of the Bankruptcy Code. One leading commentator notes that the proposed plan must be better than the alternative available to creditors:

> In chapter 11, the best interests of creditors test requires that each creditor has accepted the plan or will receive plan distributions having a total value that is not less than the amount such creditor would receive had the debtor been liquidated pursuant to chapter 7. This interpretation of the best interest of creditors test is not readily transferable to the chapter 9 context, in which a municipality cannot be liquidated. Accordingly, in chapter 9, the best interests of creditors test does not compare treatment under a plan to liquidation, but rather to other realistic alternatives to the plan. In applying the "best interests" test to chapter 9 plans, courts have found that a plan which makes "little or no effort to repay creditors over a reasonable period of time" is not in the best interests of creditors, but they also have held that "interpretation of the best interest of creditors test that required the municipality to devote all resources available to the repayment of creditors equals or exceeds the fair and equitable standard."
>
> Section 943[b](7) does not require a plan to be found superior to dismissal and thus provides the court a somewhat more flexible standard by which it can determine whether a plan is in the best interests of creditors. However, where the best interest of creditors test cannot be satisfied, the alternative must be dismissal, with the attendant disorderly collection efforts by individual creditors that bankruptcy is designed to prevent.

Francis J. Lawall & J. Gregg Miller, Debt Adjustments for Municipalities under Chapter 9 of the Bankruptcy Code: A Collier Monograph, § 8.1(c)(i) (2012) (footnotes omitted); *In re Mount Carbon Metro. Dist.*, 242 B.R. 18, 34 (Bankr. D. Colo. 1999) ("The 'best interest' requirement of section 943(b)(7) is generally regarded as requiring that a proposed plan provide a better alternative for creditors than what they already have."); *In re Sanitary & Improv. Dist.*, No. 7, 98 B.R. 970, 974 (Bankr. D. Neb. 1989) (holding that section 943(b)(7) "simply requires the Court to make a determination of whether or not the plan as proposed is better than the alternatives").

> In the chapter 9 context, the alternative is dismissal of the case, permitting every creditor to fend for itself in the race to obtain the mandamus remedy and to collect the proceeds. Clearly, such a result is chaos, especially in those cases where the debt burden of the municipality is too high to support on the taxes that the lands of the municipality will bear or the taxes or fees that the inhabitants or the users of

municipal services will pay.

Collier on Bankruptcy ¶ 943.03[7][a] (Alan N. Resnick & Henry J. Sommer eds., 16th ed.). (footnote omitted).

Were this case dismissed, creditors would suffer. In such an event, creditors would be left to race to the courthouse to seek mandamus, which is "an empty right to litigate." *Faitoute Iron & Steel Co. v. City of Asbury Park*, 316 U.S. 502, 510 (1942). "And so we have had the spectacle of taxing officials resigning from office in order to frustrate tax levies through mandamus, and officials running on a platform of willingness to go to jail rather than to enforce a tax levy . . . and evasion of service by tax collectors, thus making impotent a court's mandate." *Id.* at 511. This is not a speculative parade of horribles but a fact encountered during the last great round of municipal defaults. *Id.* at 510-11; *see also* Kevin A. Kordana, *Tax Increases in Municipal Bankruptcies*, 83 Va. L. Rev. 1035, 1104 (1997) (discussing *Asbury Park* and the "bleak record of mandamus actions").

The District believes it cannot impose any more taxes because it already imposed the statutory maximum. Kentucky's Constitution expressly imposes strict limitations on the taxing authority of the District. Ky. Const. § 157 ("The tax rate for a taxing district *shall not, at any time,* exceed fifty cents per one hundred dollars of taxable property.") (emphasis added). A person who has secured a judgment against a city cannot compel the city to levy a tax in excess of constitutional limitations to pay said judgment, but must recover the judgment from current revenues in excess of current governmental expenses. *See Town of Mt. Vernon v. General Elec. Supply Corp.*, 158 S.W.2d 649 (Ky. 1942). The legislature has the power to fix a tax rate below the maximum specified in constitution. *City of Ashland v. Webb*, 470 S.W.2d 604, 605 (Ky. 1971) (state statutory limit on city taxes below constitutional maximum in Section 157 of the Constitution upheld); *Rea v. Gallatin County Fiscal Court*, 422 S.W.2d 134, 137-38 (Ky. 1967) (same for county taxes). "In no event shall the special ad valorem tax imposed for the maintenance and operation of the district exceed ten cents ($0.10) on each one hundred dollars ($100) of the assessed valuation of all property in the county." K.R.S. § 216.317(2).

The Debtors believe that federal courts likewise uphold state taxing limits. *United States v. County of Macon*, 99 U.S. 582 (1879), held that mandamus would not lie to force a local government to levy taxes in excess of the limits contained in a statute in effect at the time the county incurred its bonded indebtedness, for the explicit limitation on the taxing power became part of the contract, the bondholders had notice of the limitation and were deemed to have consented to it, and hence no contractual remedy was unconstitutionally impaired by observing the statute. *Missouri v. Jenkins*, 495 U.S. 33, 57 n.21 (1990); *see also Rees v. City of Watertown*, 86 U.S. 107 (1874) (holding mandamus unavailable where officials have resigned, and that tax limitation in effect when bond obligation was undertaken may not be exceeded by court order).

Farmers Bank alleges that the District may impose a higher tax rate.

The Debtors believe that the Plan is in the best interests of creditors because the Plan maximizes the economic return to the Debtors' creditors of available funds in the most practicable way given the unusual and complex nature of this Case. The Plan provides that the Debtors' assets

will be sold, that the sale proceeds will be used to pay creditors, and that the District shall continue to use the Hospital District Tax to make future payments to creditors. Under state law, creditors would not have the ability to force a liquidation of the Debtors' assets, and would instead be relying on mandamus as a remedy, and looking to the Hospital's future revenues in excess of its municipal expenses. The Plan allows the Debtors to realize the value of its assets, and distribute that value to its creditors.

2. **Feasibility.**

To satisfy the requirement set forth in Bankruptcy Code section 943(b)(7) that the Plan be feasible, the Debtors must demonstrate the ability to make the payments required under the Plan and still maintain its operations at the level that it deems necessary to the continued viability of the health care facility.

> The Bankruptcy Code neither defines feasibility in chapter 9 nor does it specify what factors a court should consider in determining whether a plan is feasible. Because there is no purpose in confirming a chapter 9 plan if the emerged debtor will be unable to provide future governmental services, a court must, in the course of determining feasibility, evaluate whether it is probable that the debtor can both pay prepetition debt according to plan terms and provide future public services at the level necessary to its viability as a municipality. An appropriate feasibility analysis should "prevent confirmation of visionary schemes which promise creditors … more under a proposed plan than the debtor can possibly attain after confirmation." To be feasible, a plan must offer a reasonable prospect of success, which requires the court to engage in a practical analysis of whether the debtor can accomplish what the plan proposes and provide governmental services. Although the court is not the guarantor of a successful plan, more is required of the plan than "mere hopes, desires and speculation." The probability of future success hinges upon reasonable income and expense projections.
>
> Although chapter 11 of the Bankruptcy Code does not use the word "feasible" it requires that "[c]onfirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan." Case law holds the feasibility requirement of chapter 11 is satisfied if "the plan offers a reasonable assurance of success. Success need not be guaranteed." Accordingly, the chapter 11 and chapter 9 feasibility analysis is comparable: the court must determine whether there is a reasonable prospect of successful completion of the proposed plan.
>
> Although a chapter 9 debtor may modify its obligations to bond holders, the plan is not feasible if bonds proposed to be issued in conjunction with the plan will not be paid in full. Even where there is overwhelming creditor support for such a plan, indicating that the "best interest" element of section 943(b)(7) may be satisfied, the Bankruptcy Code's express "feasibility" requirement as well as the history of chapter 9 commands that an objective evaluation of the feasibility of a

> proposed chapter 9 plan is required of the court. A feasibility determination based simply upon whether the debtor can issue bonds, as compared to whether it can in fact pay the bonds to be issued under the plan, has been deemed so superficial as to be meaningless.
>
> A chapter 9 plan proposed by a bankruptcy hospital district, which was to be funded from tax assessments, rental income and operating revenue, was found to be feasible and in the best interests of creditors where the plan was based on projections that the debtor had formulated based upon reasonably anticipated income and expenses. The court further noted that the plan represented the end result of lengthy negotiations with the debtor's creditors to reduce their claims to the point where the debtor could execute the proposed plan, which provided for the hospital to continue as a going concern, a factor important to the surrounding community.

Francis J. Lawall & J. Gregg Miller, Debt Adjustments for Municipalities under Chapter 9 of the Bankruptcy Code: A Collier Monograph, § 8.1(c)(ii) (2012) (footnotes omitted).

The Debtors submits that the Plan is feasible. The Plan provides for the liquidation of the Debtors' assets and the continued use of its taxation power. The District will be required to expend a minimal amount of money on future operations in order to comply with its statutory obligations. However, the remainder of the funds may be used to pay creditors.

3. **Acceptance by Impaired Classes**

Section 1129(a)(8) of the Bankruptcy Code requires that, unless the Plan satisfies the "cramdown" provisions of Section 1129(b) as discussed below, each Impaired Class must accept the Plan by their requisite vote for Confirmation to occur. As more fully described herein, a class of Claims will have accepted the Plan if holders of at least two-thirds in amount and more than one-half in number of Allowed Claims in such class voting to accept or reject the Plan have voted in favor of acceptance.

It is important to recognize that the majorities required by Section 1126(b) of the Bankruptcy Code are calculated based on those creditors in a class that actually vote on a plan. Thus, for example, if there were 100 creditors, and only five creditors voted to accept or reject the Plan, such creditors could determine the acceptance or rejection of the plan for the entire class of creditors. Thus it is important that each holder of Claims in the Voting Classes votes on the Plan.

The Bankruptcy Code provides that the Bankruptcy Court may confirm a plan of adjustment that is not accepted by all Impaired classes if at least one Impaired class of Claims accepts the Plan and the "cramdown" provisions set forth in Section 1129(b)(1) and 1129(b)(2) are satisfied. The Plan may be confirmed under the cramdown provisions if, in addition to satisfying the other requirements of Section 943(b) of the Bankruptcy Code, the Plan is (i) fair and equitable; and (ii) does not discriminate unfairly with respect to each class of claims that is Impaired under and has not accepted the Plan.

Among other things, the "fair and equitable" standard requires that unless a dissenting unsecured class of claims receives payment in full for its allowed claims, no holder of allowed claims in any class junior to that class may receive or retain any property on account of such claims. Additionally, the "fair and equitable" standard has been interpreted to prohibit any class senior to a dissenting class from receiving under a plan more than 100% of its allowed claims. Under the Plan, no class senior to a dissenting unsecured class will receive more than 100% payment of its allowed claims, and therefore, the Debtor believes the Plan satisfies the "fair and equitable" standard.

The requirement that the plan not "discriminate unfairly" means that a dissenting class must be treated substantially equally with respect to other classes of equal rank. The Debtor does not believe that the Plan unfairly discriminates against any class that may not accept or otherwise consent to the Plan.

As noted above, the Debtors have reserved the right to request the Bankruptcy Court to confirm the Plan by "cramdown" in accordance with section 1129(b)(1), (b)(2)(a), and (b)(2)(b). The Debtors also have reserved the right to modify the Plan to the extent, if any, that confirmation of the Plan under sections 943 and 1129(b) of the Bankruptcy Code requires such modifications.

C. Effective Date.

l. Conditions to the Occurrence of the Effective Date.

The Plan will not become effective and operative unless and until the Effective Date occurs. Article VII.B of the Plan sets forth certain conditions to the occurrence of the Effective Date. The Debtor and the New Operator jointly may waive in whole or in part the condition regarding agreements and instruments contemplated by, or to be entered into pursuant to, the Plan. Any such waiver of a condition may be effected at any time, without notice or leave or order of the Bankruptcy Court and without any formal action, other than the filing of a notice of such waiver with the Bankruptcy Court.

Pursuant to section 943(b)(6) of the Bankruptcy Code, the effectiveness of the Plan is conditioned on any regulatory approval necessary to carry out this provision of the Plan.

The Effective Date will occur on the first Business Day after which the conditions set forth in Article VII.B. of the Plan are satisfied or waived; provided that the Effective Date must occur by no later than one year after the Confirmation Date.

2. Non-Occurrence of Effective Date.

The Plan provides that, if confirmation occurs but the Effective Date does not occur within the period authorized by the Plan (one year after the Confirmation Date), upon notification submitted

by the Debtors to the Bankruptcy Court: (a) the Confirmation Order shall be vacated; (b) no distributions under this Plan shall be made; (c) the Debtors and all holders of Claims shall be restored to the status quo as of the day immediately preceding the Confirmation Date as though the Confirmation Date never occurred; and (d) all of the Debtors' obligations with respect to the Claims shall remain unchanged and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or against the Debtors or any other entity or to prejudice in any manner the rights of the Debtors or any entity in any further proceedings involving the Debtors. The failure of the Effective Date to occur, however, will not affect the validity of any order entered in the Case other than the Confirmation Order.

D. Conditions Precedent to Confirmation and Effectiveness

At the Confirmation hearing, the Bankruptcy Court will determine whether the Plan meets all of the requirements of Section 943 of the Bankruptcy Code governing the confirmation of a plan of adjustment. Among the conditions precedent to the Bankruptcy Court's Confirmation of the Plan are: (i) a finding that the Plan was solicited upon disclosure of adequate information as defined in Section 1125(a) of the Bankruptcy Code; and (ii) a finding that at least one of the Impaired Classes of Claims that is voting in the Case has accepted the Plan by the affirmative vote of Claimants that hold at least two-thirds in amount and not less than one-half in number of the Allowed Claims of such Classes that have voted on such Plan, but excluding any Claimants designated under Section 1126(e) of the Bankruptcy Code.

E. Effect of Confirmation and Discharge of Debtors

Article VII of the Plan provides that confirmation of the Plan and the occurrence of the Effective Date will have a number of important and binding effects, some of which are summarized below. Readers are encouraged to review Article VII of the Plan carefully and in its entirety to assess the various consequences of confirmation of the Plan.

1. Discharge of the Debtor.

Pursuant to Section 944 of the Bankruptcy Code, on the effective date of the Plan, the Debtors shall be discharged from any debt that arose before confirmation of the Plan, subject to the occurrence of the Effective Date. The rights afforded in this Plan and the treatment of claims will be in exchange for and in complete satisfaction, discharge and release of all claims of any nature whatsoever arising on or before the Effective Date, known or unknown, including any interest accrued or expenses incurred thereon from and after the Petition Date, whether against the Debtors or any of their properties, assets, or interests in property. Except as otherwise provided in the Plan, on the Effective Date, all claims against the Debtors will be deemed to be satisfied, discharged, and released in full.

2. Injunction.

Except as otherwise expressly provided in this Plan, all entities who have held, hold or may hold pre-Effective Date claims will be permanently enjoined, from and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such pre-Effective Date claim against the Debtors; (b) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree or order against the Debtors or the Debtors' property or interests in property with respect to such pre-Effective Date claims; (c) creating, perfecting, or enforcing any lien or encumbrance of any kind against the Debtors or their property or interests in property; and (d) asserting any right of setoff, subrogation or recoupment of any kind against any obligation due to the Debtors with respect to any such pre- Effective Date claim, except as otherwise permitted by section 553 of the Bankruptcy Code.

3. Term of Existing Injunctions and Stays.

Unless otherwise provided, all injunctions or stays provided for in the Case pursuant to sections 105, 362, or 922 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, will remain in full force and effect until the Effective Date.

4. Immediately Effective.

The Debtors will request the Court to order that the Confirmation Order shall be effective immediately upon entry, notwithstanding the 14-day stay under Rule 3020(e) of the Federal Rules of Bankruptcy Procedure.

IX. CERTAIN FACTORS TO BE CONSIDERED.

A. Preferences and Fraudulent Conveyances

Under federal bankruptcy law, the person with the powers of a trustee may avoid transfers of assets of a debtor as a "preferential transfer." To constitute a preferential transfer, the transfer must be (1) of an interest of the debtor in property; (2) for or on account of an antecedent debt; (3) made while the debtor was insolvent; (4) made within 90 days before the filing of a bankruptcy petition or made within one year if to an "insider" and (5) a transfer that enables the creditor to receive more that it would receive under a Chapter 7 liquidation of the debtor's assets. The Bankruptcy Code creates a rebuttable presumption that the debtor was insolvent during the 90 days immediately before the filing of the bankruptcy petition.

Generally speaking, fraudulent transfer law is designed to avoid two types of transactions: (i) conveyances that constitute "actual fraud" upon creditors, and (ii) conveyances that constitute "constructive fraud" upon creditors. In the bankruptcy context, fraudulent transfer liability arises under Sections 548 and 544 of the Bankruptcy Code. Section 548 permits the person with powers of a trustee to "reach back" for a period of two years and avoid fraudulent transfers made by the Debtor or fraudulent obligations incurred by the Debtor during the two years prior to the Petition

Date. Section 544 permits the trustee or debtor-in-possession to apply applicable state fraudulent transfer law. Assuming that Kentucky law were to apply, the person with powers of a trustee could challenge conveyances, transfers or obligations made or incurred by the Debtor within at least five (5) years prior to the Petition Date. However, under Section 544 of the Bankruptcy Code, it is necessary to establish that at the time of the challenged conveyance or obligation, there in fact existed a creditor whose Claim remains unpaid on the Petition Date.

The statute of limitations to pursue preferences and fraudulent conveyances has expired. The Debtors do not anticipate any additional amounts would be recovered from such claims.

B. Risk Factors Attendant to the Implementation of the Plan and Relating to the Repayment of Claims and Other Considerations.

Prior to deciding whether to accept the Plan, each solicited person should carefully consider all of the information contained in this Disclosure Statement These risk factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation.

There is also a risk that the amount of Allowed Administrative Expense claims and other claims may be greater than currently estimated, in which case distributions to creditors may be reduced.

X. INCOME TAX CONSEQUENCES OF THE PLAN.

Holders of Claims and/or Interests concerned with how the Plan may affect their tax liabilities should consult with their own accountants, attorneys, and/or advisors. This Disclosure Statement does not constitute and is not intended to constitute either a tax opinion of tax advice to any person.

IRS Circular 230 Disclosure: Any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used for the purpose of (a) avoiding penalties under the Internal Revenue Code or (b) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

*A. **General***

A description of certain U.S. federal income tax consequences of the Plan is provided below. No ruling has been requested from the IRS and no legal opinion has been requested from counsel concerning any tax consequence of the Plan, and no tax opinion is given by this Disclosure Statement.

This description does not cover all aspects of federal income taxation that may be relevant to the Debtor or Holders of Claims. for example, the description does not address issues of special concern to certain types of taxpayers, such as dealers in securities, life insurance companies, financial institutions, tax-exempt organizations, and foreign taxpayers, nor does it address tax

consequences to holders of Interests in the Debtor. This description does not discuss the possible state tax or non-U.S. tax consequences that might apply to the Debtor or to holders of Claims.

For these reasons, the description that follows is not a substitute for careful tax planning and professional tax advice based upon the unique circumstances of each holder of a Claim. Holders of Claims are urged to consult with their own tax advisors regarding the federal, state, local, and foreign tax consequences of the Plan.

B. Tax Consequences of Payment of Allowed Claims Pursuant to Plan

The federal income tax consequences of the implementation of the Plan to holders of Allowed Claims will depend, among other things, on the consideration to be received by the holder, whether the holder reports income on the accrual or cash method, whether the holder receives distributions under the Plan in more than one taxable year, whether the holder's Claim is allowed or disputed on the Effective Date, and whether the holder has taken a bad debt deduction or worthless security deduction with respect to its Claim.

1. Recognition of Gain or Loss

In general, a holder of an Allowed Claim should recognize gain or loss equal to the amount realized under the Plan in respect of its Claim less the holder's tax basis in the Claim. Any gain or loss recognized in the exchange may be long-term or short-term capital gain or loss or ordinary income or loss, depending upon the nature of the Allowed Claim and the holder, the length of time the holder held the Claim and whether the Claim was acquired at a market discount. If the holder realizes a capital loss, the holder's deduction of the loss may be subject to limitation. The holder's tax basis for any property received under the Plan generally will equal the amount realized. The holder's amount realized generally will equal the sum of the cash and the fair market value of any other property received by the holder under the Plan on the Effective Date or a subsequent distribution date, less the amount (if any) treated as interest, as discussed below.

2. Post-Effective Date Distributions

Because certain holders of Allowed Claims, including Disputed Claims that ultimately become Allowed Claims, may receive cash distributions after the Effective Date, the imputed interest provisions of the Internal Revenue Code may apply and cause a portion of the subsequent distribution to be treated as interest. Additionally, because holders may receive distributions with respect to an Allowed Claim in a taxable year or years following the year of the initial distribution, any loss and a portion of any gain realized by the holder may be deferred. All holders of Allowed Claims are urged to consult their tax advisors regarding the possible application of (or ability to elect out of) the "installment method" of reporting with respect to their Claims.

3. Receipt of Interest

Holders of Allowed Claims will recognize ordinary income to the extent that they receive cash or property that is allocable to accrued but unpaid interest which the holder has not yet included in its income. If an Allowed Claim includes interest, and if the holder receives less than the amount of the Allowed Claim pursuant to the Plan, the holder must allocate the Plan consideration between principal and interest. The holder may take the position that the amounts received pursuant to the Plan are allocable first to principal, up to the full amount of principal, and only then to interest. However, the proper allocation of Plan consideration between principal and interest is unclear and holders of Allowed Claims should consult their own tax advisors in this regard. If the Plan consideration allocable to interest with respect to an Allowed Claim is less than the amount that the holder has previously included as interest income, the previously included but unpaid interest may be deducted, generally as a loss.

4. Bad Debt or Worthless Securities Deduction

A holder who receives in respect of an Allowed Claim an amount less than the holder's tax basis in the Claim may be entitled in the year of receipt (or in an earlier or later year) to a bad debt deduction in some amount under Internal Revenue Code § 166(a) or a worthless securities deduction under Internal Revenue Code § 165(g). The rules governing the character, timing, and amount of bad debt and worthless securities deductions place considerable emphasis on the facts and circumstances of the holder, the obligor, and the instrument with respect to which a deduction is claimed. Holders of Allowed Claims, therefore, are urged to consult their tax advisors with respect to their ability to take such a deduction.

C. Information Reporting and Withholding

Under the Internal Revenue Code's backup withholding rules, the holder of an Allowed Claim may be subject to backup withholding with respect to distributions or payments made pursuant to the Plan unless the holder comes within certain exempt categories (which generally include corporations) and, when required, demonstrates that fact, or provides a correct taxpayer identification number and certifies under penalty of perjury that the taxpayer identification number is correct and that the holder is not subject to backup withholding because of a failure to report all dividend and interest income. Backup withholding is not an additional tax, but merely an advance payment that may be refunded to the extent it results in an overpayment of tax. Holders of Allowed Claims may be required to establish exemption from backup withholding or make arrangements with respect to the payment of backup withholding.

XI. SOURCES OF INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT.

The information contained in this Disclosure Statement has been compiled from various sources including: (1) management of the Debtors; (2) the books and records of the Debtors; and (3) the Debtors counsel, which has provided to management the discussion of the procedures applicable in a Chapter 9 bankruptcy case and other legal matters.

XII. RECOMMENDATION FOR ACCEPTANCES.

The Debtors believe that the Plan is feasible, and in the best interest of the Creditors of the Debtors and is preferable to all other alternatives. **Accordingly, the Debtors recommend that holders of Impaired claims to vote to accept the Plan by so indicating on their Ballots and returning them as specified in this Disclosure Statement and on their Ballots. A Ballot for acceptance or rejection of the Plan is enclosed. It is important that you vote.**

/s/ Neal M. Gold__
Neal M. Gold, CEO
ADAIR COUNTY HOSPITAL DISTRICT

/s/ Neal M. Gold
Neal M. Gold, CEO
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