

West Tennessee Healthcare and Related Affiliates

**Financial Statements and
Supplementary Information**

Years Ended June 30, 2018 and 2017

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Independent Auditors' Report

Board of Trustees
West Tennessee Healthcare and Related Affiliates
Jackson, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of West Tennessee Healthcare and Related Affiliates (the "Company"), as of and for the years ended June 30, 2018 and 2017, and the related notes to financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

New Accounting Pronouncements

As discussed in Note 3 to the financial statements, during the year ended June 30, 2018, the Company adopted the provisions of Government Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and Statement No. 85, *Omnibus 2017*. The cumulative effect of the adoption of this guidance resulted in a reclassification of goodwill in the amount of \$8,577 to deferred outflows of resources in the 2017 financial statements. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 10, the schedule of changes in net pension and OPEB liability (asset) and related ratios on page 48, and the schedule of contributions on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (“GASB”), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The roster of governance and management officials on page 4 and the deductions from gross patient service revenues information on page 50 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance on page 51 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The deductions from gross patient service revenues information and the schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The roster of governance and management officials has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2018, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Memphis, Tennessee
October 2, 2018, except for the
schedule of expenditures of federal
awards and state financial assistance, for
which the date is November 30, 2018**

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

Government Officials — Board of Trustees

Name	Title	Principal Occupation
Danny Wheeler	Chairman	Retired, Jackson Energy Authority
Curtis Mansfield	Vice Chairman	President, First Bank
Phil Bryant	Secretary	Financial Services
Greg Milam		Insurance Services
Vicki Burch		President, West Tennessee Business College

Management Officials

James Ross	Chief Executive Officer
Jeff Blankenship	Chief Financial Officer, Vice-President
Currie Higgs	General Counsel, Vice-President
Amy Garner	Compliance Officer, Vice-President
Dr. David Roberts	Chief Medical Officer, Vice-President
Dr. Robert Pryor	Chief Physician Executive
Jeff Frieling	Chief Information Officer, Vice-President
Wendie Carlson	Chief Human Resources Officer, Vice-President
Dr. Lisa Piercey	Executive Vice-President of System Services
Tina Prescott	Chief Nursing Officer, Vice-President
Tim Adams	Vice-President of Hospital Services
Karen Utley	Chief Patient Satisfaction Officer, Vice-President
Deann Thelen	Vice-President of Hospital Services
Darrell King	Vice-President of West Tennessee Medical Group

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

This section of the financial statements of West Tennessee Healthcare and Related Affiliates (the "Company") presents management's analysis of the Company's financial performance during the fiscal years ended June 30, 2018 and 2017.

Financial highlights

2018

The Company experienced an operating loss for the year, net of interest expense, of \$0.2 million representing an operating margin of (0.0)%. The year was one of significant transition for the Company, with several notable issues impacting the base operation and a crucial transaction to expand the Company's presence in the region.

On May 31, 2018, the Company acquired substantially all of the assets of Community Health Systems in West Tennessee, operating locally under the brand Tennova Healthcare (hereafter referred to as "Tennova West"). The acquired operation included three hospitals, 19 clinics, and an EMS operation. The acquired hospitals were located in Dyersburg, Martin, and Jackson, Tennessee. The acquisition will enhance the Company's ability to fulfill its mission in a sustainable business model, with the goal of improving quality and access to care for west Tennesseans. The acquisition is consistent with the organization's strategic vision of becoming a more complete health system. On June 1, 2018, the Company began operation of the acquired services, maintaining the same level of service in each location with the exception of the hospital located in north Jackson, which became a satellite of the Company's flagship hospital, Jackson-Madison County General Hospital ("JMCGH"). The satellite campus is just 4.7 miles from the flagship hospital. The purchase included fixed assets and limited working capital. The total purchase price was \$73.2 million. The Company obtained \$90 million in interim financing to fund the transaction and support working capital during provider enrollment, with a plan to obtain permanent financing in the coming fiscal year.

On May 5, 2018, the Company replaced its legacy revenue cycle systems for acute hospitals with a new system integrated with the organization's hospital electronic health record. As a result, patient accounts receivable were temporarily and unusually high at June 30, 2018.

Total operating revenues were 4% above the prior year, an increase of approximately \$26.6 million. The increase was driven primarily by revenue growth for the flagship hospital, in addition to one month of revenue for the first month of operation of the newly acquired operations described above.

Total salaries and benefits expense increased by \$18 million, or 5%, due to several factors, most notably agency staffing utilization and employee rate adjustments awarded during the fiscal year. Supplies and other costs increased by \$21.4 million, or 8%, driven primarily by increased drug costs as a result of changes to JMCGH's status in the federal 340b drug purchasing program.

The Company's net non-operating revenue (expense) went from revenue of \$10.1 million in 2017 to expense of \$1.2 million in 2018. The change is primarily related to a decrease in investment income with the shift in the value of the investment portfolio from the previous year. In addition, non-operating expenses increased with the acquisition of the Tennova West hospitals described above, with the cost of diligence and advisory services related to the transaction of \$5.8 million.

As of December 31, 2017, the Company discontinued the practice of offering post-employment medical benefits beyond what is required by regulation. After the change, the Company's OPEB plan was overfunded by \$3.6 million. In February 2018, the Company distributed \$2.5 million of the excess to Plan participants. The remainder of the balance will continue to be drawn down as expenses are incurred by the Plan's existing beneficiaries.

2017

The Company's operating income, net of interest expense, was \$14.6 million representing an operating margin of 2.0%.

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

Total operating revenues were 5% above the prior year, an increase of approximately \$33 million. The increase was driven primarily by revenue growth for the flagship hospital, Jackson-Madison County General Hospital ("JMCGH") and a gain associated with the transition of the JMCGH's inpatient rehab service to a new joint venture.

Total salaries and benefits expense increased by \$22 million or 6% due to several factors, most notably increased agency staffing utilization in addition to routine staffing growth and employee rate adjustments awarded during the fiscal year. Supplies and other costs increased by \$8.1 million, or 3%, driven by non-recurring costs related to settlement of legal matters, in addition to routine cost escalation.

The Company's net non-operating revenue increased by approximately \$29 million compared to the prior year due to improved market conditions for the Company's investments.

Overview of the financial statements

The financial statements consist of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements also include notes and required supplementary information that explain in more detail some of the information in the financial statements.

Required basic financial statements

The Company reports financial information about the Company using accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The statements of net position include all the Company's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. These statements also provide the basis for computing rate of return, evaluating the capital structure of the Company and assessing the liquidity and financial flexibility of the Company.

All of the Company's revenues and expenses are accounted for in the statements of revenues and expenses and changes in net position. These statements measure the performance of the Company's operations over the past year and can be used to determine whether the Company has successfully recovered all its costs through the services provided, as well as its profitability and creditworthiness.

The final required statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Company's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, non-capital financing and financing activities, and provides information as to where cash came from, what cash was used for, and what the change in the cash balance was during the reporting period.

Financial analysis

Our analysis of the financial statements of the Company begins below. One of the most important questions asked about the Company's finances is, "Is the Company as a whole better off or worse off as a result of the year's activities?" The statements of net position and the statements of revenues and expenses and changes in net position report information about the Company's activities in a way that will help answer this question. These statements report the net position of the Company and changes in them. You can think of the Company's net position – the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources – as one way to measure financial health or financial position. Over time, increases or decreases in the Company's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in interest rates, economic conditions, regulations and new or changed government legislation.

**West Tennessee Healthcare and Related Affiliates
Management's Discussion and Analysis**

Table A-1

Condensed Statements of Net Position (in millions of dollars)

	June 30			Dollar Increase (Decrease) 2017-2018	Percentage Increase (Decrease) 2017-2018	Dollar Increase (Decrease) 2016-2017	Percentage Increase (Decrease) 2016-2017
	2018	2017	2016				
Current assets	\$ 207.8	\$ 167.6	\$ 162.2	\$ 40.2	24%	\$ 5.4	3%
Capital assets, net	428.2	371.0	364.2	57.2	15%	6.8	2%
Other non-current assets	<u>413.8</u>	<u>401.0</u>	<u>377.4</u>	<u>12.8</u>	3%	<u>23.6</u>	6%
Total assets	1,049.8	939.6	903.8	110.2	12%	35.8	4%
Deferred outflows of resources	<u>60.4</u>	<u>78.0</u>	<u>61.9</u>	<u>(17.6)</u>	-23%	<u>16.1</u>	26%
Total assets and deferred outflows	<u>\$ 1,110.2</u>	<u>\$ 1,017.6</u>	<u>\$ 965.7</u>	<u>\$ 92.6</u>	9%	<u>\$ 51.9</u>	5%
Current liabilities	\$ 170.4	\$ 74.2	\$ 72.8	\$ 96.2	130%	\$ 1.4	2%
Non-current liabilities	<u>388.4</u>	<u>405.5</u>	<u>391.2</u>	<u>(17.1)</u>	-4%	<u>14.3</u>	4%
Total liabilities	558.8	479.7	464.0	79.1	16%	15.7	3%
Deferred inflows of resources	-	-	3.4	-	-	(3.4)	-100%
Net position:							
Unrestricted	411.4	394.2	366.0	17.2	4%	28.2	8%
Invested in capital assets, net of related financing	129.3	133.0	121.6	(3.7)	-3%	11.4	9%
Restricted	<u>10.7</u>	<u>10.7</u>	<u>10.7</u>	<u>-</u>	-	<u>-</u>	0%
Total net position	<u>551.4</u>	<u>537.9</u>	<u>498.3</u>	<u>13.5</u>	3%	<u>39.6</u>	8%
Total liabilities, deferred inflows and net position	<u>\$ 1,110.2</u>	<u>\$ 1,017.6</u>	<u>\$ 965.7</u>	<u>\$ 92.6</u>	9%	<u>\$ 51.9</u>	5%

As indicated in Table A-1, net position increased from fiscal 2017 by \$13.5 million or 3% with the Company's financial performance in fiscal year 2018.

1. Total assets increased by \$110.2 million or 12% due primarily to the Company's acquisition of Tennova West's assets and the implementation of a new revenue cycle system, which caused accounts receivable to be temporarily and unusually high at yearend.
2. Deferred outflows decreased by \$17.6 million or 23% due to the actual versus projected earnings of the Company's pension plan investments.
3. Total liabilities increased by \$79.1 million or 16% due to the \$90 million interim financing the Company obtained as part of the Tennova West acquisition, offset by a decrease in net pension liability.

As indicated in Table A-1, net position increased from fiscal 2016 by \$39.6 million or 8% with the Company's financial performance in fiscal year 2017.

1. Total assets increased by \$35.8 million or 4% due primarily to the Company's investment in the inpatient rehabilitation hospital joint venture, which amounted to \$26.8 million as of June 30, 2017.
2. Deferred outflows increased by \$16.1 million or 26% due to the actual versus projected earnings of the Company's pension plan investments.

**West Tennessee Healthcare and Related Affiliates
Management's Discussion and Analysis**

3. Total liabilities increased by \$15.7 million or 3% due primarily to an increase in the Company's net pension liability.

Table A-2

Condensed Statements of Revenues and Expenses and Changes in Net Position (in millions of dollars)

	Year Ended June 30			Dollar	Percentage	Dollar	Percentage
	2018	2017	2016	Increase (Decrease) 2017-2018	Increase (Decrease) 2017-2018	Increase (Decrease) 2016-2017	Increase (Decrease) 2016-2017
Net patient service revenues	\$ 724.5	\$ 691.0	\$ 675.1	\$ 33.5	5%	\$ 15.9	2%
Other operating revenues	49.7	56.6	39.4	(6.9)	-12%	17.2	44%
Total operating revenues	774.2	747.6	714.5	26.6	4%	33.1	5%
Salaries and benefits	415.9	397.9	375.9	18.0	5%	22.0	6%
Supplies and other expenses	295.0	273.6	265.5	21.4	8%	8.1	3%
Depreciation and amortization	48.6	46.6	44.6	2.0	4%	2.0	4%
Total operating expenses	759.5	718.1	686.0	41.4	6%	32.1	5%
Income from operations	14.7	29.5	28.5	(14.8)	-50%	1.0	4%
Net non-operating revenues (expenses)	(1.2)	10.1	(19.1)	(11.3)	-112%	29.2	-153%
Change in net position	13.5	39.6	9.4	(26.1)	-66%	30.2	321%
Beginning net position	537.9	498.3	488.9	39.6	8%	9.4	2%
Ending net position	\$ 551.4	\$ 537.9	\$ 498.3	\$ 13.5	3%	\$ 39.6	8%

While the statements of net position show the change in financial position or net position, the statements of revenues and expenses and changes in net position, as indicated above, provide answers as to the nature and source of these changes (i.e., the financial result of current year operations).

Operating revenues increased by \$26.6 million or 4% from 2017 to 2018.

1. In the final month of the fiscal year, the Company acquired the operations of Tennova West and began operation. The addition of these services in fiscal year 2018 accounted for an increase in operating revenue of approximately \$13.3 million over the prior year.
2. The remaining increase was due to routine revenue growth from hospital inpatient and outpatient services, particularly for the JMCGH flagship hospital.

Operating revenues increased by \$33.1 million or 5% from 2016 to 2017.

1. The increase was driven primarily by routine revenue growth from hospital inpatient and outpatient services, particularly for the JMCGH flagship hospital.
2. The Company recognized a gain of \$13 million as part of a transaction related to the JMCGH's inpatient rehabilitation service. JMCGH operated an inpatient rehabilitation service for many years. The service relocated to a newly constructed facility on the campus of JMCGH and began operation there on July 1, 2017. The new facility is operated as part of a newly formed joint venture between the Company and an established rehabilitation provider. The joint venture operates the new facility as well as a pre-existing inpatient rehabilitation facility in Martin, Tennessee, previously operated and contributed to the joint venture by the other partner. The gain recognized during fiscal year 2017 relates to the contribution of JMCGH's existing service to the joint venture.

**West Tennessee Healthcare and Related Affiliates
Management's Discussion and Analysis**

3. In the final quarter of fiscal year 2017, the Company acquired and began operating a primary care practice added to the Company's medical group practice. The addition of this practice accounted for an increase in operating revenue of approximately \$1.0 million over the prior year.

Operating expense increased by \$41.4 million or 6% when comparing 2018 to 2017.

1. In the final month of the fiscal year, the Company acquired Tennova West operations and began operation. The addition of these services in fiscal year 2018 accounted for an increase in total operating expense of approximately \$13.2 million over the prior year.
2. Total salaries and benefits expense increased by \$18 million or 5% during the fiscal year with routine increases in staffing, routine employee rate adjustments and continued utilization of agency staffing for the flagship hospital in response to nursing turnover and vacancies.
3. Supplies and other costs increased by \$21.4 million or 8%, driven by routine escalation of administrative costs and a significant increase in drug costs due to a change in the 340B status at the flagship hospital.

Operating expense increased by \$32.1 million or 5% when comparing 2017 to 2016.

1. Total salaries and benefits expense increased by \$22 million or 6% during fiscal year 2017, with routine increases in staffing, routine employee rate adjustments and increased utilization of agency staffing for the flagship hospital in response to nursing turnover and vacancies.
2. Supplies and other costs increased by \$8.1 million or 3%, driven by routine escalation of administrative costs and a significant increase in legal settlement costs. Legal fees and legal settlement costs vary unpredictably as a matter of the routine course of business. The 2017 fiscal year included a significant amount of such costs, with a combination of high routine activity and settlement of long-standing litigation relating to a medical staff peer review matter, in the amount of \$3.4 million. In total, all such costs exceeded prior year by \$4.3 million.
3. In the final quarter of the 2017 fiscal year, the Company acquired and began operating a primary care physician practice to the Company's medical group practice, accounting for an increase in operating expense of approximately \$1.0 million over the prior year.

Capital assets

As of June 30, 2018, the Company had \$428.2 million invested in a variety of capital assets, as reflected in Table A-3, which represents a net increase (additions, disposals and depreciation) of \$57.2 million or 15% from the end of last year.

Table A-3

Capital Assets (in millions of dollars)

	June 30	
	2018	2017
Land and land improvements	\$ 56.8	\$ 51.2
Buildings	360.8	311.5
Equipment	746.3	686.8
Construction in progress	<u>9.6</u>	<u>22.3</u>
Total capital assets	1,173.5	1,071.8
Accumulated depreciation	<u>(745.3)</u>	<u>(700.8)</u>
Capital assets, net	<u>\$ 428.2</u>	<u>\$ 371.0</u>

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

Long-term debt

In April 2015, the Company issued the Series 2015 Hospital Revenue Refunding Bonds in the amount of \$205,965,000. The proceeds of the Series 2015 Bonds, together with other funds, were used by the Company to advance refund \$210,895,000 of the outstanding Series 2008 Bond issue.

As of June 30, 2018, the Company had \$265.7 million in outstanding long-term debt and as of June 30, 2017, the Company had \$271.8 million in outstanding long-term debt. This represents a net decrease of \$6.1 million over the prior fiscal year. With the addition of the \$90 million financing as part of the Tennova West acquisition, the Company has total outstanding debt of \$355.7 million for the year ended June 30, 2018.

For more detailed information regarding the Company's capital assets and long-term debt, please refer to the notes to the financial statements.

Future outlook

The Company continues to develop strategies in line with its vision and to ensure financial sustainability for the future. The Board of Trustees and management continue to have a positive outlook for the Company, maintaining a commitment to high quality care and an exceptional patient experience, while pursuing business strategies that will strengthen its financial position and ensure its ability to continue to fulfill its mission.

Requests for information

This financial report is designed to provide a general overview of the Company's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Company.

West Tennessee Healthcare and Related Affiliates
Statements of Net Position
June 30, 2018 and 2017
(in thousands)

	<u>2018</u>	<u>2017</u> <u>(as Restated)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,848	\$ 29,492
Accounts receivable:		
Patient accounts receivable, less allowances for doubtful accounts of approximately \$40,097 in 2018, and \$31,963 in 2017	156,842	112,998
Other	8,254	4,381
Total accounts receivable	<u>165,096</u>	<u>117,379</u>
Inventories	12,488	7,206
Prepaid expenses	11,480	8,605
Assets limited as to use - current portion of debt service reserve fund	4,887	4,867
Total current assets	<u>207,799</u>	<u>167,549</u>
Assets limited as to use:		
Debt service reserve fund	5,792	5,753
Board designated contingency fund	9,270	9,270
Other internally designated	347,974	338,298
Total assets limited as to use	<u>363,036</u>	<u>353,321</u>
Other assets:		
Intangibles	1,456	1,532
Wellness Center loan receivable	16,872	16,872
Investment in joint venture	27,597	26,769
Other	4,879	2,520
Total other assets	<u>50,804</u>	<u>47,693</u>
Capital assets:		
Land and land improvements	56,807	51,170
Buildings	360,813	311,493
Fixed equipment	218,045	215,041
Moveable equipment	528,211	471,838
Construction in progress	9,617	22,260
	<u>1,173,493</u>	<u>1,071,802</u>
Accumulated depreciation	(745,270)	(700,756)
Total capital assets	<u>428,223</u>	<u>371,046</u>
Total assets	<u>1,049,862</u>	<u>939,609</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on refundings	27,924	30,361
Pension contributions subsequent to measurement date	12,370	18,070
Difference between expected and actual pension experience	4,239	4,572
Difference between actual and projected earnings on pension plan investments	7,583	16,460
Excess consideration provided for acquisitions	8,290	8,577
	<u>60,406</u>	<u>78,040</u>
Total deferred outflows of resources	<u>60,406</u>	<u>78,040</u>
Total assets and deferred outflows of resources	<u>\$ 1,110,268</u>	<u>\$ 1,017,649</u>

See accompanying notes.

	<u>2018</u>	<u>2017</u> <u>(as Restated)</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 31,390	\$ 24,095
Accrued compensation and related expenses	25,893	21,309
Accrued interest expense	3,297	3,376
Other accrued expenses	8,397	10,963
Estimated third-party settlements	5,126	8,387
Bridge loan payable	90,000	-
Long-term debt due within one year	<u>6,355</u>	<u>6,095</u>
Total current liabilities	170,458	74,225
Other liabilities:		
Long-term debt, less amounts due within one year	273,637	281,158
Net pension liability	<u>114,736</u>	<u>124,311</u>
Total other liabilities	<u>388,373</u>	<u>405,469</u>
Total liabilities	558,831	479,694
NET POSITION		
Unrestricted	411,411	394,269
Net investment in capital assets	129,347	133,066
Restricted for debt service	<u>10,679</u>	<u>10,620</u>
Total net position	<u>551,437</u>	<u>537,955</u>
Total liabilities and net position	<u>\$ 1,110,268</u>	<u>\$ 1,017,649</u>

West Tennessee Healthcare and Related Affiliates
Statements of Revenues and Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017
(in thousands)

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenues, net of provision for bad debts of \$52,027 in 2018, and \$48,439 in 2017	\$ 724,510	\$ 691,057
Other revenues	49,702	43,589
Gain on contribution to joint venture (Note 13)	-	12,988
Total operating revenues	<u>774,212</u>	<u>747,634</u>
Operating expenses:		
Salaries and benefits	415,894	397,926
Supplies and other	295,077	273,588
Depreciation and amortization	48,584	46,622
Total operating expenses	<u>759,555</u>	<u>718,136</u>
Operating income	14,657	29,498
Nonoperating (expenses) revenues:		
Investment income	20,701	25,924
Interest expense	(14,814)	(14,864)
Contributions to affiliated entities	(958)	(916)
Acquisition costs and other	(6,104)	-
Nonoperating (expenses) revenues, net	<u>(1,175)</u>	<u>10,144</u>
Increase in net position	13,482	39,642
Net position, beginning of year	<u>537,955</u>	<u>498,313</u>
Net position, end of year	<u>\$ 551,437</u>	<u>\$ 537,955</u>

See accompanying notes.

West Tennessee Healthcare and Related Affiliates
Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(in thousands)

	<u>2018</u>	<u>2017</u>
Operating activities:		
Receipts from third-party payors and patients	\$ 676,793	\$ 685,644
Receipts from other operations	49,701	56,577
Payments to suppliers	(296,545)	(288,029)
Payments to employees	(405,975)	(396,899)
Net cash provided by operating activities	<u>23,974</u>	<u>57,293</u>
Noncapital financing activity:		
Capital contributions to City of Jackson and Madison County	<u>(958)</u>	<u>(916)</u>
Net cash used in noncapital financing activity	<u>(958)</u>	<u>(916)</u>
Investing activities:		
Interest and dividends received	1,653	2,725
Purchases of investments	(90,437)	(5,363)
Proceeds from sales of investments	99,749	33,826
Acquisition of Tennova West, including acquisition related costs	(79,038)	-
Acquisition of physician practice and pharmacy	-	(2,310)
Investment in joint venture	-	(13,781)
Net cash (used in) provided by investing activities	<u>(68,073)</u>	<u>15,097</u>
Capital and related financing activities:		
Purchases of capital assets	(40,594)	(53,414)
Repayment of long-term debt	(6,095)	(5,885)
Proceeds from bridge loan	90,000	-
Interest paid on long-term debt	(13,621)	(13,596)
Other	(277)	-
Net cash provided by (used in) capital and related financing activities	<u>29,413</u>	<u>(72,895)</u>
Decrease in cash and cash equivalents	<u>(15,644)</u>	<u>(1,421)</u>
Cash and cash equivalents, beginning of year	<u>29,492</u>	<u>30,913</u>
Cash and cash equivalents, end of year	<u>\$ 13,848</u>	<u>\$ 29,492</u>

See accompanying notes.

West Tennessee Healthcare and Related Affiliates
Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(in thousands)

(Continued)

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	\$ 14,657	\$ 29,498
Adjustments to reconcile operating income to net cash provided by operating activities:		
Pension expense	17,705	17,247
Depreciation	48,220	46,307
Provision for bad debts	52,027	48,439
Gain on contribution to joint venture	-	(12,988)
Loss on disposals of capital assets	500	753
Amortization	364	315
Changes in operating assets and liabilities:		
Accounts receivable	(99,744)	(53,852)
Inventories and prepaid expenses	(1,423)	(1,075)
Other assets	(227)	(486)
Accounts payable and accrued expenses	7,526	1,636
Estimated third-party settlements	(3,261)	(431)
Deferred outflows - contributions to pension plan	(12,300)	(18,000)
Deferred outflows - contributions to 415(m) plan	(70)	(70)
Net cash provided by operating activities	<u>\$ 23,974</u>	<u>\$ 57,293</u>
Supplementary schedule of noncash investing activities:		
Change in fair value of investments	<u>\$ 19,048</u>	<u>\$ 23,199</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

1. Significant Accounting Policies

Organization and basis of presentation

The accompanying financial statements include West Tennessee Healthcare and its related affiliates (hereinafter collectively referred to as the "Company"), all of which are under common control of the Jackson-Madison County General Hospital District (the "District") and have been presented as blended component units ("BCUs") of the Company. We consider Jackson-Madison County General Hospital, Bolivar General Hospital, Camden General Hospital, Milan General Hospital, Volunteer Martin Hospital, Dyersburg Hospital, Pathways Behavioral Health, Medical Center Medical Products, Health Partners, Therapy & Learning Center and the West Tennessee Medical Group BCUs of West Tennessee Healthcare, as the governing body is substantively the same as the governing body of West Tennessee Healthcare and has operational responsibility of those component units. The Company presents its financial statements in accordance with accounting principles generally accepted in the United States of America. All significant intercompany balances and transactions have been eliminated.

Proprietary fund accounting

The Company utilizes the economic resources measurement focus and the proprietary fund method of accounting whereby revenues and expenses are recognized on an accrual basis. Substantially all revenues and expenses are subject to accrual.

Cash and cash equivalents

The Company considers temporary cash investments with a maturity of three months or less when purchased to be cash and cash equivalents. In accordance with Tennessee Code Annotated Section 9-1-118, the full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation ("FDIC"). For deposits above and beyond the amount covered by the FDIC, the Company follows the requirements as set forth in Tennessee Code Annotated Title 9 Chapter 4, Part 5, "Collateral Pool for Public Deposits Act of 1990," whereby "Local governments with bank deposits that are in excess of the amount covered by FDIC insurance must either maintain the deposit with a bank that is a member of the bank collateral pool or collateralize the deposit in accordance with State statutes."

Investments

The Company's investments are reported at fair value in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*, which establishes a fair value hierarchy. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair values of investments in certain private equity, hedge and real estate funds are based on the investments' net asset value ("NAV") per share (or its equivalent) provided by the fund manager. The Company invests in government bonds, short-term money market investments, equity securities and alternative investments that are in accordance with the Company's investment policy. Alternative investments include the Company's ownership interest in limited partnerships and hedge, private equity and real estate investment funds.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Assets limited as to use

Assets limited as to use represent investments and temporary cash deposits set aside for multiple purposes:

- Funds by trustee under trust indentures
- To self-insure against malpractice and other general liability claims
- For future renovation, replacement, and expansion of the facilities
- To replenish operating funds as needed

The types of securities that are permitted investments for Company funds are established by the Company's Investment Policy in accordance with Tennessee Statutes. All funds of the Company may be invested in obligations of or guaranteed by the United States Government. In addition, certain funds of the Company may be invested in obligations of agencies of the U.S. government; obligations of or guaranteed by the State of Tennessee; collateralized certificates of deposit and repurchase agreements; commercial paper; and other asset classes including fixed income, domestic equities, international equities, and alternative investments.

Intangible assets

Intangible assets are amortized over their estimated useful lives of 5 to 40 years.

Capital assets

Property, plant, and equipment are recorded on the basis of cost. Depreciation is computed by applying the straight-line method over the estimated remaining useful lives of buildings and improvements (10 to 40 years) and equipment (4 to 20 years). Assets under capital leases are amortized using the straight-line method over the shorter of the estimated useful life of the assets or life of the lease term, excluding any lease renewal, unless the lease renewals are reasonably assured. Amortization expense related to assets under capital leases is included in depreciation expense. The Company's capitalization threshold is \$1 and a minimum useful life of 2 years.

Deferred outflows/inflows of resources

In addition to assets, the statements of net position report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as outflow of resources (expense) until then. In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Company's deferred inflows and outflows are related to pensions, excess consideration provided for acquisitions and deferred charges on bond refundings.

Compensated absences

The Company allows employees to accumulate paid time off to be used for vacation, holiday and sick time. The Company allows employees to be paid for their vacation and holiday time not taken and accrues its liability for such time. Such liability is classified as accrued compensation and related expenses in the accompanying statements of net position.

Defined benefit pension plans

For purposes of measuring the 2018 and 2017 net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Company's defined benefit pension plans and additions to/deductions from the Company's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Bond original issue discounts or premiums

Bond original issue discounts or premiums are included with the long-term debt accounts and are amortized over the life of the related bonds by the interest method. Such amortization is included in interest expense in the accompanying statements of revenues and expenses and changes in net position.

Patient accounts receivable

Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third-party payor programs. The bad debt allowance is estimated based upon the age of the account, prior experience and any unusual circumstances which affect the collectability. The Company does not require collateral or other security for patient accounts receivable and routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity care and community benefit

As a community provider, the Company's policy is to accept all patients regardless of their ability to pay. Management believes that substantially all the uncollected amounts are due to patients' inability to pay. Therefore, all amounts which are not collected, other than third-party payor contractual adjustments, are recorded as charity care and excluded from net patient service revenues. In April 2015 the Company implemented a presumptive charity program, which is designed to provide financial assistance for non-elective services to individuals who meet approved eligibility criteria that have not applied through the traditional Patient Financial Assistance Program. Evaluation for presumptive charity begins at 90 days from initial patient billing, and determinations are made based upon obtainable credit history and estimated household income. As a result of this program, deductions to revenue that were considered bad debts in prior years are now considered to be charity care. The community benefit provided through charity care, including provisions for bad debts, was \$91,575 and \$93,138, based on gross charges, for the years ended June 30, 2018 and 2017, respectively. The estimated costs of providing charity services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Company's total expenses divided by gross patient service revenue. The estimated cost of providing such services amounted to approximately \$29,147 and \$29,429 for 2018 and 2017, respectively.

EHR incentive payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act ("HITECH"). The provisions were designed to increase the use of electronic health record ("EHR") technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

The Company accounts for HITECH incentive payments under a grant accounting model. Income from Medicare and Medicaid incentive payments is recognized ratably as revenue as the Company has demonstrated that it complied with the meaningful use criteria over the applicable compliance period. The Company recognized revenue from Medicare and Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling \$179 and \$1,371 for the years ended June 30, 2018 and 2017, respectively, are included in other revenues

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

in the accompanying statements of revenues and expenses and changes in net position. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using cost report data that is subject to audit. Additionally, the Company's compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Changes to recorded estimates could be significant and are recognized in the period they become known.

Net patient service revenues

Net patient service revenues are reported at the net amounts billed to patients, third-party payors and others for services rendered, including an estimated provision for bad debts and estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Changes in estimated provisions and final settlements are included in net patient service revenues. Changes in estimated settlements resulted in an increase in net patient service revenues of \$3,458 and \$1,236 for the years ended June 30, 2018 and 2017, respectively.

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services and skilled nursing services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Company receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid-eligible and other low income patients. The Center for Medicare and Medicaid Services ("CMS") established an outpatient prospective payment system. CMS established groups called ambulatory payment classifications for outpatient procedures. Payments are made based on the group assignment for the service rendered. Additionally, CMS established a prospective payment system for home health services.

TennCare

The Company contracts with managed care organizations to receive reimbursement for providing hospital services to patients covered under the TennCare program. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges or prospectively determined daily rates.

Other

The Company has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The bases for payment to the Company under these agreements include prospectively determined rates per discharge, discounts from established charges or prospectively determined daily rates.

Charges at the Company's established billing rates (gross patient service charges) related to patients covered by Medicare, Medicaid, and TennCare programs were 67% of gross patient service revenues for the fiscal years ended 2018 and 2017.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Charges exceeding amounts reimbursed and not included in net patient service revenues were as follows:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 919,132	\$ 877,164
TennCare	292,637	269,686
Other	463,842	433,450
Bad debts	<u>52,027</u>	<u>48,439</u>
	<u>\$ 1,727,638</u>	<u>\$ 1,628,739</u>

Laws and regulations governing the Medicare and TennCare/Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined (in relation to certain government programs, primarily Medicare, this is generally referred to as the "cost report" filing and settlement process). Final determination of amounts earned under prospective payment and cost reimbursement activities is subject to review by appropriate governmental authorities or their agents. Management believes that adequate provisions have been made for adjustments that may result from final determination of amounts earned under Medicare and Medicaid programs.

Essential access, critical access, Federal Medical Assistance Percentage and Medicaid Disproportionate Share payments of approximately \$6,207 and \$7,153 received from TennCare/Medicaid were included in net patient service revenues during the years ended June 30, 2018 and 2017, respectively.

The Company believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and TennCare/Medicaid programs.

Operating revenues and expenses

The Company's primary mission is to provide health care services to the citizens of West Tennessee through its acute care and specialty care facilities. Therefore, operating revenues and expenses include those generated from direct patient care and sundry revenues and expenses related to the operation of the Company's facilities.

Federal income taxes

The Internal Revenue Service has determined that all material affiliates comprising the Company are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). The District is also exempt from federal income taxes under Section 115 of the IRC. As qualified tax-exempt organizations, each of the tax-exempt affiliates comprising the Company must operate in conformity with the IRC to maintain its tax-exempt status.

Recent accounting pronouncements

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations ("AROs"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating

West Tennessee Healthcare and Related Affiliates
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(in thousands)

events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (the Company's fiscal year 2019).

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (the Company's fiscal year 2020).

GASB Statement No. 87, *Leases*, has the objective to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (the Company's fiscal year 2021).

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, modifies the disclosure requirements in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018 (the Company's fiscal year 2019).

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of

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(in thousands)

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (the Company's fiscal year 2021).

Management is evaluating the impact that the adoption of these standards will have on the financial statements.

2. Business Combination

On May 31, 2018, the Company acquired substantially all of the assets of Community Health Systems in West Tennessee, operating locally under the brand Tennova Healthcare (hereafter referred to as "Tennova West"). The acquired operations included three hospitals, 19 clinics, and an EMS operation. The acquired hospitals were located in Dyersburg, Martin, and Jackson, Tennessee. The acquisition will enhance the Company's ability to fulfill its mission in a sustainable business model, with the goal of improving quality and access to care for west Tennesseans. The acquisition is consistent with the Company's strategic vision of becoming a more complete health system. On June 1, 2018, the Company began operation of the acquired services, maintaining the same level of service in each location with the exception of the hospital located in Jackson, which became a satellite of the Company's flagship hospital, Jackson-Madison County General Hospital. The satellite campus is located just 4.7 miles from the flagship hospital. The purchase included fixed assets and limited working capital. The total purchase price was \$73,211, adjusted for working capital settlements at closing. The Company obtained \$90,000 in interim financing to fund the transaction and support working capital during provider enrollment, with a plan to obtain permanent financing in the coming fiscal year. Acquisition related expenses incurred in fiscal year 2018 were \$5,827.

The Company recorded the acquisition in accordance with GASB Statement No. 69, Government Combinations and Disposals of Operations. Under Statement No. 69, all assets, deferred outflows, liabilities and deferred inflows are recognized at acquisition value.

The following summarizes the fair value of the assets acquired and liabilities assumed of the three hospitals as of the acquisition date:

Assets acquired:	
Current assets	\$ 6,733
Fixed assets	65,303
Identifiable intangible assets	339
Other assets	<u>2,622</u>
Total assets	74,997
Liabilities assumed:	
Current liabilities assumed	<u>1,786</u>
Net position acquired	<u>\$ 73,211</u>

3. New Accounting Standards

Effective July 1, 2017, the Company adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which improves the accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or "OPEB"). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement includes various provisions, including details of the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. Due to certain information prior to the measurement date of June 30, 2017, not being available to the Company's actuary, the Company was not able to determine the effect of the new pronouncement on prior periods presented. Accordingly, the financial statements for the year ended June 30, 2017, have not been restated. The adoption of this standard had no effect on the Company's statement of net position or statement of revenues and expenses and changes in net position. The adoption of this standard added new disclosures and required supplemental information related to the OPEB plan.

Effective July 1, 2017, the Company adopted the provisions of GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*, which addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this standard had no effect on the Company's statements of net position or statements of revenues and expenses and changes in net position.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB statements. Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, Statement No. 85 addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.

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(in thousands)

- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The Company historically has presented excess consideration provided for acquisitions, previously known as goodwill, as other assets. Due to the implementation of GASB Statement No. 85, the Company restated the statement of net position as of June 30, 2017, reclassifying amounts previously known as goodwill in the amount of \$8,577 to deferred outflows of resources (excess consideration provided for acquisitions).

Effective July 1, 2017, the Company adopted the provisions of GASB Statement No. 86, *Certain Debt Extinguishment Issues*, which has the primary objective of improving consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. Statement No. 86 also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

For governments that extinguish debt, whether through a legal extinguishment or through an in-substance defeasance, Statement No. 86 requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. The adoption of this standard had no effect on the Company's statements of net position or statements of revenues and expenses and changes in net position.

4. Assets Limited as to Use

The Company, as authorized by the Board of Trustees, maintains checking accounts necessary for daily operations and deposits and investments for debt service reserve funds, the contingency fund, and other internally designated funds.

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(in thousands)

Debt service reserve funds

The bond funds are maintained in accordance with the bond indentures related to the Series 2008 \$318,980 Hospital Revenue Refunding and Improvement Bonds and the Series 2015 \$205,965 Hospital Revenue Refunding Bonds (see Note 9). The interest fund and bond sinking fund are maintained for the payment of bond principal and interest. A debt service reserve fund was created under the existing indenture in connection with the issuance of the Series 2008 Bonds and remains in place to secure the remaining Series 2008 bonds. The debt service reserve fund is maintained to make up any deficiencies in the interest fund and bond sinking fund. No debt service reserve fund was required in connection with the Series 2015 bonds. Certain amounts comprising the interest fund, bond sinking fund and debt service reserve fund are included in the current portion of assets limited as to use in the accompanying statements of net position based on debt service requirements during the following fiscal year. The Company first applies restricted resources when expenses are incurred for purposes for which both restricted and unrestricted assets are available.

Board designated contingency fund and other internally designated

The Company established a board designated contingency fund for losses on self-insured professional liability claims. The Company also reserves funds for future purchases of capital assets and other internal purposes, and these funds are included in other internally designated assets limited as to use.

5. Cash and Investments

At June 30, 2018 and 2017, the Company had cash and deposits as follows:

	<u>2018</u>	<u>2017</u>
Cash on hand	\$ 13	\$ 14
Cash insured (FDIC) or collateralized with securities held by the Company	906	1,510
Cash collateralized by securities held by the pledging financial institution's trust department in the Company's name or in the State of Tennessee Collateral Pool	<u>12,929</u>	<u>27,968</u>
Total	<u>\$ 13,848</u>	<u>\$ 29,492</u>

Assets limited as to use consist of the following investments which are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB statements require or permit on the statements of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Prices for investment securities such as common stocks and mutual funds are readily available in the active markets in which those securities are traded, and the resulting fair values are categorized as Level 1.

Prices for preferred stock, corporate bonds, U.S. government and agency fixed income securities, collateralized debt obligations and mortgage-backed securities are determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2.

There is limited or no observable data for the price of the private limited partnership fund, and the resulting fair value is categorized as Level 3. The fair value of this investment was estimated based primarily on the value of the underlying investments held by the fund and other information provided by the fund manager.

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(in thousands)

Investments' fair value measurements are as follows at June 30, 2018 and 2017:

	2018	Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mutual funds:				
Money market	\$ 10,816	\$ 10,816	\$ -	\$ -
Balanced	17,418	17,418	-	-
Fixed income	25,074	25,074	-	-
	<u>53,308</u>	<u>53,308</u>	-	-
Common stock	538	538	-	-
Limited partnership fund of funds	2,110	-	-	2,110
	<u>55,956</u>	<u>\$ 53,846</u>	<u>\$ -</u>	<u>\$ 2,110</u>
Total investments in the fair value hierarchy				
Investments measured at NAV	<u>311,967</u>			
Total investments	<u>\$ 367,923</u>			

	2017	Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mutual funds:				
Money market	\$ 13,360	\$ 13,360	\$ -	\$ -
Fixed income	42,845	42,845	-	-
Balanced	52,721	52,721	-	-
	<u>108,926</u>	<u>108,926</u>	-	-
Common stock	623	623	-	-
Limited partnership fund of funds	2,192	-	-	2,192
	<u>111,741</u>	<u>\$ 109,549</u>	<u>\$ -</u>	<u>\$ 2,192</u>
Total investments in the fair value hierarchy				
Investments measured at NAV	<u>246,447</u>			
Total investments	<u>\$ 358,188</u>			

The fair values of investments in certain private equity and hedge funds are based on the investments' NAV per share (or its equivalent) provided by the fund manager. Investments valued at NAV are as follows at June 30, 2018 and 2017:

	2018	2017	Unfunded	Redemption	Redemption
	Fair Value	Fair Value	Commitments	Frequency	Notice Period
Limited partnerships and hedge funds					
Equity fund ^(a)	\$ 127,311*	\$ 100,178*	None	Daily	None
Core fixed income ^(b)	78,801*	68,971*	None	Daily	None
Public inflation hedge ^(c)	30,248*	30,193*	None	Daily	None
Real estate limited partnership ^(d)	34,751*	33,341*	None	Quarterly	60 days
Global domestic asset allocation ^(e)	-	13,764*	None	Monthly	30 days
Direct hedged equity fund ^(f)	29,032*	-	None	Monthly	100 days
Private equity hedge fund ^(g)	11,824	-	None	Quarterly	20 days
	<u>\$ 311,967</u>	<u>\$ 246,447</u>			

*Denotes an investment that is more than 5% of total investments.

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- (a) This common and collective trust fund is primarily invested in common stocks and exchange traded mutual funds in the United States and globally. The fair value of this investment has been estimated using the net asset value as provided by the hedge fund manager.
- (b) This common and collective trust fund is primarily invested in a broad range of fixed income securities, including commercial mortgage - backed securities, U.S. and global corporate bonds, and U.S. government securities.
- (c) This common and collective trust fund's objective is to provide a partial hedge against inflation through a basket of inflation-sensitive assets. The fund holds investments in common stocks, exchange traded mutual funds and a broad range of fixed income securities in the U.S. and globally. Additionally, the fund is invested in derivatives and interest rate swaps.
- (d) This real estate mortgage fund actively manages a core portfolio consisting primarily of participating mortgage loans and equity real estate investments located in the United States.
- (e) This limited partnership fund holds investments in long and short positions in U.S. and non-U.S. equities and equity-related instruments; fixed income and other debt-related instruments; mortgage-backed and asset-backed securities; derivatives, including options, warrants, futures and other commodities, currencies, currency forwards, and over-the-counter derivative instruments; repurchase and reverse repurchase agreements; preferred stocks, convertible bonds; real estate related securities; and cash and cash equivalents.
- (f) This common and collective trust fund invests in a number of alternative strategies through the use of separate accounts and limited partnerships. The objective is to provide a long-term total return with reduced volatility and reduced correlation to conventional stock and bond markets by utilizing a broad array of trading and investment strategies.
- (g) This semi-liquid investment fund provides diversified private markets exposure in a registered investment company vehicle. 70% of the portfolio will be allocated to private equity, 20% to private debt, and the remaining 10% in liquid investments for cash management purposes.

In accordance with GASB Statement No. 40, Deposit and Investment Risk Disclosures, the Company has assessed the custodial credit risk, the concentration of credit risk, credit risk, and interest rate risk of its cash and investments.

Custodial credit risk

The Company's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or are collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. The deposit risk is that, in the event of the failure of a depository financial institution, the Company will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Company's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Company, and are held by either the counterparty or the counterparty's trust department or agent but not in the Company's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the Company will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

At June 30, 2018 and 2017, the Company's bank balances were not exposed to custodial credit risk since the full amount was covered by FDIC insurance or collateralized by securities held by the pledging financial institution's trust department in the Company's name or by the State of Tennessee Collateral Pool.

As of June 30, 2018 and 2017, the Company's investments in assets limited as to use were registered in the Company's name; therefore, they are not exposed to custodial credit risk. In addition, the Company's investment policy requires that specific qualifications be met in order to represent the Company as a custodian.

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Concentration of credit risk

This is the risk associated with the amount of investments the Company has with any one issuer that exceeds 5% or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Company's investment policy states that no equity may represent more than 8% of any individual portfolio manager and that no single purchase shall represent more than 5% of the Company's total equity position.

Credit risk

GASB Statement No. 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Company's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced.

The credit risk profile of the Company's investments as of June 30, 2018, is as follows:

	Balance June 30, 2018	Rating			
		AAA	AA+/AA/AA-	A+ / A / A-	NA
Money market					
mutual funds	\$ 10,816	\$ 10,816	\$ -	\$ -	\$ -
Real estate limited					
partnership at NAV	34,751	-	-	-	34,751
Fixed income mutual fund	25,074	-	-	25,074	-
Balanced mutual fund	17,418	-	-	-	17,418
Common stock	538	-	-	-	538
Limited partnerships	2,110	-	-	-	2,110
Common and collective					
trust funds	265,392	12,881	79,406	1,668	171,437
Private equity hedge fund	<u>11,824</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,824</u>
Total investments	367,923	23,697	79,406	26,742	238,078
Amounts required to					
meet current obligations	<u>(4,887)</u>	<u>(4,887)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 363,036</u>	<u>\$ 18,810</u>	<u>\$ 79,406</u>	<u>\$ 26,742</u>	<u>\$ 238,078</u>

Interest rate risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the Company's investment horizon and within the Company's risk tolerance and cash requirements.

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The distribution of the Company's investments by maturity as of June 30, 2018, is as follows:

	Balance June 30, 2018	Maturity				
		12 Months or Less	12 to 24 Months	24 to 60 Months	More than 60 Months	NA
Money market mutual funds	\$ 10,816	\$ 10,816	\$ -	\$ -	\$ -	\$ -
Real estate limited partnership at NAV	34,751	-	-	-	-	34,751
Fixed income mutual fund	25,074	-	25,074	-	-	-
Balanced mutual fund	17,418	-	-	-	-	17,418
Common stock	538	-	-	-	-	538
Limited partnerships	2,110	-	-	-	-	2,110
Common and collective trust funds	265,392	-	-	-	93,925	171,467
Private equity hedge fund	11,824	-	-	-	-	11,824
Total investments	367,923	10,816	25,074	-	93,925	238,108
Amounts required to meet current obligations	(4,887)	(4,887)	-	-	-	-
	<u>\$ 363,036</u>	<u>\$ 5,929</u>	<u>\$ 25,074</u>	<u>\$ -</u>	<u>\$ 93,925</u>	<u>\$ 238,108</u>

For the years ended June 30, 2018 and 2017, investment income is comprised of the following:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 1,653	\$ 2,725
Net increase in fair value of investments	<u>19,048</u>	<u>23,199</u>
	<u>\$ 20,701</u>	<u>\$ 25,924</u>

6. Wellness Center Loan Receivable

During fiscal year 2012, Jackson-Madison County General Hospital executed a promissory note with the WF Healthy Community Investment Fund, LLC in the amount of \$16,872 for development of the Wellness Center, known as the LIFT at the Jackson Walk development in downtown Jackson. Such note bears interest at the rate of 4.25% until maturity and is payable quarterly. Beginning January 1, 2019, and continuing until the maturity date of September 30, 2041, WF Healthy Community Investment Fund, LLC will make quarterly payments of \$384, which includes principal and interest. The note is secured by the ownership interest in the community development entity.

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7. Disaggregation of Payable Balances

Accounts payable at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Due to vendors	\$ 28,275	\$ 21,482
Due to patients and third-party payers	2,464	2,161
Other	<u>651</u>	<u>452</u>
Total accounts payable	<u>\$ 31,390</u>	<u>\$ 24,095</u>

Other accrued expenses at June 30, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Self-insured professional liability	\$ 4,037	\$ 3,979
Self-insured employee health claims liability	3,861	3,452
Other	<u>499</u>	<u>3,532</u>
Total other accrued expenses	<u>\$ 8,397</u>	<u>\$ 10,963</u>

8. Capital Assets

Capital assets activity for the years ended June 30, 2018 and 2017, consisted of the following:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Land	\$ 35,220	\$ 5,389	\$ -	\$ -	\$ 40,609
Land improvements	15,950	95	156	(3)	16,198
Building	311,493	47,524	1,916	(120)	360,813
Equipment	<u>686,879</u>	<u>36,752</u>	<u>26,710</u>	<u>(4,085)</u>	<u>746,256</u>
	1,049,542	89,760	28,782	(4,208)	1,163,876
CIP	<u>22,260</u>	<u>16,137</u>	<u>(28,782)</u>	<u>2</u>	<u>9,617</u>
Total capital assets	1,071,802	105,897	-	(4,206)	1,173,493
Accumulated depreciation	<u>(700,756)</u>	<u>(48,220)</u>	<u>-</u>	<u>3,706</u>	<u>(745,270)</u>
Net capital assets	<u>\$ 371,046</u>	<u>\$ 57,677</u>	<u>\$ -</u>	<u>\$ (500)</u>	<u>\$ 428,223</u>

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	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Land	\$ 34,592	\$ 628	\$ -	\$ -	\$ 35,220
Land improvements	15,374	22	554	-	15,950
Building	301,342	4,916	5,429	(194)	311,493
Equipment	<u>661,090</u>	<u>27,269</u>	<u>5,457</u>	<u>(6,937)</u>	<u>686,879</u>
	1,012,398	32,835	11,440	(7,131)	1,049,542
CIP	<u>12,936</u>	<u>21,105</u>	<u>(11,440)</u>	<u>(341)</u>	<u>22,260</u>
Total capital assets	1,025,334	53,940	-	(7,472)	1,071,802
Accumulated depreciation	<u>(661,168)</u>	<u>(46,307)</u>	<u>-</u>	<u>6,719</u>	<u>(700,756)</u>
Net capital assets	<u>\$ 364,166</u>	<u>\$ 7,633</u>	<u>\$ -</u>	<u>\$ (753)</u>	<u>\$ 371,046</u>

Depreciation expense totaled \$48,220 and \$46,307, during the years ended June 30, 2018 and 2017, respectively.

Construction in progress at June 30, 2018, consists of various projects for additions and renovations to the Company's facilities. The Company has outstanding contracts and other commitments related to the completion of these projects. The Company estimates approximately \$3,423 in costs to complete these projects.

9. Long-Term Debt and Bridge Loan

Long-term debt consists of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Hospital Revenue Bonds, Series 2008	\$ 73,425	\$ 75,030
Less unamortized bond discount	(872)	(937)
Hospital Revenue Bonds, Series 2015	192,305	196,795
Plus unamortized bond premium	<u>15,134</u>	<u>16,365</u>
	279,992	287,253
Amount due within one year, Series 2008	(1,685)	(1,605)
Amount due within one year, Series 2015	<u>(4,670)</u>	<u>(4,490)</u>
Total amounts due within one year	<u>(6,355)</u>	<u>(6,095)</u>
Total long-term debt less amounts due within one year	<u>\$ 273,637</u>	<u>\$ 281,158</u>

In April 2015, the District issued \$205,965 of Series 2015 Hospital Revenue Refunding Bonds. The proceeds of the Series 2015 Bonds, together with other funds, were used by the District to advance refund \$210,895 of the outstanding Series 2008 Hospital Revenue Refunding and Improvement Bonds. The difference between the reacquisition price (\$241,465) and the net carrying value of the old debt (\$207,897) resulted in a loss of \$33,568, which was recorded as deferred outflows of resources in the accompanying statements of net position and is being amortized over the remaining life of the Series 2008 Bonds (through 2041).

In August 2008, the District issued \$318,980 of Series 2008 Hospital Revenue Refunding and Improvement Bonds. With the 2008 fixed rate bond issue, the District has eliminated all auction rate and variable rate debt. A portion of the proceeds was used to refund \$78,350 of its Series 2003 Auction Rate Hospital Revenue Bonds; \$48,725 of its Series 2006A Auction Rate Hospital Revenue Bonds; and \$143,600 of its Series 2006B Variable Demand Rate Hospital Revenue Refunding and Improvement Bonds. A Debt Service Reserve Fund was created under the 2008 indenture. On the date of issuance of the 2008 bonds, \$21,300 of the proceeds of the 2008 bonds were deposited in the Debt Service Reserve Fund.

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The District's revenues are pledged as collateral to the Series 2015 and Series 2008 Bonds. Interest rates range from 2.0% to 5.25% on the Series 2015 Bonds and 3.5% to 5.75% on the Series 2008 Bonds.

In May 2018, the Company obtained a \$90,000 bridge loan in order to finance the acquisition of Tennova West. The note bore interest at a rate of three-month LIBOR plus .65% (2.31% at June 30, 2018), with interest due quarterly beginning June 30, 2018. The loan was collateralized by revenues of the District. On October 1, 2018, the Company repaid all borrowings and interest on the bridge loan.

Long-term debt and bridge loan activity (excluding unamortized bond premium or discount) for the years ended June 30, 2018 and 2017, consisted of the following:

	June 30, 2016	Additions	Reductions	June 30, 2017	Additions	Reductions	June 30, 2018
Bonds payable	\$ 277,710	\$ -	\$ 5,885	\$ 271,825	\$ -	\$ 6,095	\$ 265,730
Bridge loan	\$ -	\$ -	\$ -	\$ -	\$ 90,000	\$ -	\$ 90,000

Scheduled principal and interest payments, including the bridge loan and bonds payable, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
Fiscal years ending June 30:			
2019	\$ 96,355	\$ 13,958	\$ 110,313
2020	6,675	12,770	19,445
2021	7,015	12,431	19,446
2022	7,370	12,076	19,446
2023	7,745	11,703	19,448
2024-2028	45,040	52,184	97,224
2029-2033	57,770	39,448	97,218
2034-2038	74,315	22,917	97,232
2039-2041	<u>53,445</u>	<u>4,887</u>	<u>58,334</u>
	355,730	182,374	538,106
Unamortized bond premium, net	<u>14,262</u>	<u>-</u>	<u>14,262</u>
Total	<u>\$ 369,992</u>	<u>\$ 182,374</u>	<u>\$ 552,368</u>

10. Leases

The Company leases equipment under various operating leases. Rent expense for all operating leases and office space was approximately \$6,181 and \$5,813 for the years ended June 30, 2018 and 2017, respectively. Approximate minimum future rental payments, by year and in the aggregate, under noncancellable operating leases with initial terms of one year or more are as follows at June 30, 2018:

2019	\$ 5,858
2020	4,499
2021	3,327
2022	3,135
2023	2,924
2024-2028	7,405
2029-2033	<u>5,368</u>
	<u>\$ 32,516</u>

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11. Retirement Plans

The Company maintains and administers a noncontributory defined benefit pension plan, a defined contribution plan, a supplemental 415(m) plan, and other post-employment benefits plan. The operation of the plans is consistent with the laws of Tennessee and the United States federal government.

The Company's net pension liability as of June 30, 2018 and 2017, consists of the following:

	<u>2018</u>	<u>2017</u>
Defined benefit pension plan	\$ 113,704	\$ 123,255
Supplemental 415(m) plan	<u>1,032</u>	<u>1,056</u>
	<u>\$ 114,736</u>	<u>\$ 124,311</u>

Defined benefit pension plan

The West Tennessee Healthcare Pension Plan (the "Plan") is a single-employer defined benefit pension plan administered by the District. All employees hired after October 1, 2005, and prior to June 30, 2010, are covered on the fifth anniversary of their date of hire after they have completed at least 1,800 hours of employment per year. The Plan was discontinued for employees hired after June 30, 2010. The Plan provides retirement, termination, disability, and death benefits to plan members and beneficiaries. The Plan issues a publicly available financial report that can be obtained from the Company's Internal Audit Department, 620 Skyline Drive, Jackson, Tennessee 38301.

Normal retirement benefits for employees hired prior to October 1, 2005, are calculated as one-twelfth of 1.2% of the employee's highest consecutive 5-year average salary, plus .65% of average compensation in excess of covered compensation, as defined, for each year of credited service up to a maximum of 30 years. Normal retirement benefits for employees hired after October 1, 2005, are calculated as one-twelfth of the sum of (1), (2), and (3) as defined below:

1. 0.5% of the employee's average compensation multiplied by years of credited service, as defined, up to ten years.
2. (2) 1% of the employee's average compensation, multiplied by years of credited service, as defined, in excess of ten years, but not over twenty years.
3. (3) 1.5% of the employee's average compensation multiplied by years of credited service, as defined, in excess of twenty years, but not exceeding thirty years.

Employees initially hired or acquired prior to October 1, 2005, are eligible to retire at the first of the month coincident with or next following the date on which the person attains age 65. Employees initially hired or acquired on or after October 1, 2005, are eligible to retire at the first of the month coincident with or next following the date the person attains age 65 and has been credited with at least five years of service. Employees initially hired or acquired prior to October 1, 2005, are eligible to retire before normal retirement on or after attaining age 55. Employees initially hired or acquired on or after October 1, 2005, are eligible to retire before normal retirement on or after attaining age 55 with five years of service.

All employees are eligible for disability benefits after 10 years of service. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefit is determined as if the employee had retired immediately before death and had elected to receive a joint and 100% survivor annuity naming the beneficiary as the joint annuitant.

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At January 1, 2017 and January 1, 2016, the census dates used to measure the 2018 and 2017 total pension liability, respectively, the following employees were covered by the benefit terms of the Plan:

	<u>2018</u>	<u>2017</u>
Inactive employees or beneficiaries currently receiving benefits	1,104	1,134
Inactive employees or beneficiaries entitled to but not yet receiving benefits	752	750
Active employees	<u>2,564</u>	<u>2,650</u>
Total	<u><u>4,420</u></u>	<u><u>4,534</u></u>

Contributions

The Company has no legal or Plan requirements to fund the Plan. The Company's funding policy is to make contributions based on an amount recommended by an independent actuary calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. The actuarially determined contribution is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The additional amount to finance the unfunded liability has been estimated with the goal of fully funding the plan over a closed 30-year period beginning in 2017. In addition, annual gains and losses have been spread over a 10-year period in order to reduce the effects of market volatility and provide stability to the suggested contributions. For the years ended June 30, 2018 and 2017, the Company's average contribution rate was 12.1% and 11.9%, respectively, of annual payroll.

Net pension liability

The Company's net pension liability at June 30, 2018, was measured as of June 30, 2017, and the total pension liability used to calculate the 2018 net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5%
Salary increases	3.5%
Investment rate of return	6.5%

Mortality rates were based on the RP-2014 Mortality Table for males and females with adjustments for generational projections based on Scale BB, using the Entry Age Normal Cost method. The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2016, to June 30, 2017.

The long-term expected rate of return on Plan investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic & international equity securities	55%	6.9 - 8.3%
Fixed income securities	10%	(1.0) - 4.8%
Real estate and other	32%	5.5 - 7.8%
Cash equivalents	3%	2.7 - 3.1%
	100%	

The discount rate used to measure the total pension liability was 6.5%. The projection of cash flows used to determine the discount rate assumed that the Company contributions will be made at actuarially determined amounts. Based on these assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability

The net pension liability and annual pension expense for fiscal year 2018 are based on a measurement date of June 30, 2017, and a measurement period of July 1, 2016 to June 30, 2017.

	Total Pension Liability (b)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance, June 30, 2017	\$ 328,156	\$ 204,901	\$ 123,255
Service cost	6,815	-	6,815
Interest	21,309	-	21,309
Difference between expected and actual experience	535	-	535
Contributions – employer	-	18,000	(18,000)
Net investment income	-	20,210	(20,210)
Benefit payments	(14,501)	(14,501)	-
Administrative expense	-	-	-
Net changes	14,158	23,709	(9,551)
Balance, June 30, 2018	\$ 342,314	\$ 228,610	\$ 113,704

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The net pension liability and annual pension expense for fiscal year 2017 are based on a measurement date of June 30, 2016, and a measurement period of July 1, 2015, to June 30, 2016.

	Total Pension Liability (b)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance, June 30, 2016	\$ 305,801	\$ 204,143	\$ 101,658
Service cost	6,276	-	6,276
Interest	19,884	-	19,884
Difference between expected and actual experience	8,735	-	8,735
Contributions – employer	-	18,000	(18,000)
Net investment income	-	(4,453)	4,453
Benefit payments	(12,540)	(12,540)	-
Administrative expense	-	(249)	249
Net changes	<u>22,355</u>	<u>758</u>	<u>21,597</u>
Balance, June 30, 2017	<u>\$ 328,156</u>	<u>\$ 204,901</u>	<u>\$ 123,255</u>

The following presents the net pension liability of the Company, calculated using the discount rate of 6.5%, as well as what the Company's net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net pension liability	\$ 159,723	\$ 113,704	\$ 75,389

For the years ended June 30, 2018 and 2017, the Company recognized pension expense of \$17,659 and \$17,201, respectively.

At June 30, 2018, and 2017, the Company reported pension deferred outflows of resources as noted below:

	2018	2017
Difference between expected and actual experience	\$ 4,239	\$ 4,572
Net difference between projected and actual earnings on Plan investments	7,583	16,460
Pension contributions subsequent to the measurement date	<u>12,370</u>	<u>18,070</u>
	<u>\$ 24,192</u>	<u>\$ 39,102</u>

West Tennessee Healthcare and Related Affiliates
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Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30		
2019	\$	2,967
2020		5,483
2021		3,090
2022		(464)
2023		746

Supplemental 415(m) retirement plan

In 2005, the Company established a supplemental 415(m) retirement plan (the "415 Plan"). The 415 Plan provides monthly benefits, to a single retiree, equal to the benefit that cannot be paid from the Plan due to the application of the IRC Section 415 limits. The 415 Plan is unfunded. Benefit payments are deemed contributions when paid.

The 415 Plan net pension liability of \$1,032 and annual pension expense of \$46 for fiscal year 2018 are based on a measurement date of June 30, 2017, and a measurement period of July 1, 2016 to June 30, 2017, as determined by an actuarial valuation as of that date. The total pension liability in the June 30, 2018, actuarial valuation was determined using a discount rate of 4%. The projection of cash flows used to determine the discount rate assumed that the Company contributions will be made at actuarially determined amounts.

The 415 Plan net pension liability of \$1,056 and annual pension expense of \$46 for fiscal year 2017 are based on a measurement date of June 30, 2016, and a measurement period of July 1, 2015 to June 30, 2016, as determined by an actuarial valuation as of that date. The total pension liability in the June 30, 2017, actuarial valuation was determined using a discount rate of 4%. The projection of cash flows used to determine the discount rate assumed that the Company contributions will be made at actuarially determined amounts.

Other post-employment benefits ("OPEB")

The Company provides certain postretirement health insurance benefits to certain retired employees and their beneficiaries. Effective July 1, 2017, the Company accounts for its OPEB plan in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. During 2016, the OPEB plan was amended to not allow participation for employees retiring after December 31, 2017.

Based on the June 30, 2018, actuarial valuation, the Company's OPEB plan was overfunded by \$3,576 (the "net OPEB asset"). In February 2018, the Company distributed approximately \$2,500 of excess plan assets to plan participants. The remainder of plan assets will be drawn down as expenses are incurred by the plan's existing beneficiaries. The Company's 2018 financial statements do not reflect the net OPEB asset or the related deferred inflows of resources or OPEB income of \$450 that are described in the following paragraphs. The plan does not issue a publicly available financial report.

Description of OPEB plan

90% of future eligible retirees are assumed to elect medical coverage in the OPEB plan. 100% of current retirees are assumed to continue medical coverage until Medicare eligibility, or until death if grandfathered. Employees that are eligible to participate in the OPEB plan are employees that were either full-time or part-time, enrolled in healthcare benefits, and retired prior to January 1, 2018, after meeting the following criteria:

- Age 60 and 30 years of service
- Age 62 and 15 years of service

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Retiree coverage ends at age 65 (Medicare eligibility). Spouse coverage ends at the earlier of the spouse's age 65 or 18 months after the retiree reaches age 65. There is a closed group of grandfathered retirees that are eligible to continue coverage through their lifetime beyond age 65.

Retirees have the choice between two plan options for medical coverage: a medical deductible plan or a medical copayment plan. The retiree monthly contributions (in dollars) as of January 1, 2017, the actuarial valuation date and date of collection of census data, are summarized in the following table:

	<u>Medical Deductible Plan</u>	<u>Medical Copayment Plan</u>
Individual	\$ 621	\$ 671
Individual + 1	\$ 1,223	\$ 1,322
Family	\$ 1,707	\$ 1,846

Certain grandfathered retirees have no contribution requirement, and certain grandfathered retirees will not be subject to contribution increases.

At January 1, 2017, the following employees were covered by the benefit terms of the OPEB plan:

Active employees	5,379
Retired employees	35
Spouses of retired employees	<u>8</u>
Total	<u><u>5,422</u></u>

Contributions

The Company has no legal or plan requirements to fund the OPEB plan. The Company's funding policy is to make contributions based on an amount recommended by an independent actuary calculated as of June 30 one year prior to the end of the fiscal year in which contributions are reported. The actuarially determined contribution is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, the Company was not required to make a contribution to the OPEB plan.

Net OPEB asset

The Company's net OPEB asset at June 30, 2018, was measured as of June 30, 2017, and the total liability used to calculate the 2018 net OPEB asset was determined by an actuarial valuation as of that date. The total OPEB liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Salary increases	3.5%
Investment rate of return	6.5%

Mortality rates were based on the RP-2014 Mortality Table for males and females with adjustments for generational projections based on Scale BB, using the Entry Age Normal Cost method.

The long-term expected rate of return on Plan investments was determined using best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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(in thousands)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic & international equity securities	99%	6.9-8.3%
Cash equivalents	1%	2.7-3.1%
	100%	

The discount rate used to measure the total OPEB liability was 6.5%. The projection of cash flows used to determine the discount rate assumed that the Company contributions will be made at actuarially determined amounts. Based on these assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net OPEB asset

The net OPEB asset and annual OPEB income for fiscal year 2018 are based on a measurement date of June 30, 2017, and a measurement period of July 1, 2016 to June 30, 2017.

	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Asset (a) – (b)</u>
Balance, June 30, 2017	\$ 1,900	\$ 5,129	\$ (3,229)
Service cost	35	-	35
Interest	121	-	121
Difference between expected and actual experience	(374)	-	(374)
Net investment income	-	519	(519)
Benefit payments	(142)	(532)	390
Net changes	(360)	(13)	(347)
Balance, June 30, 2018	\$ 1,540	\$ 5,116	\$ (3,576)

The following presents the net OPEB asset of the Company, calculated using the discount rate of 6.5% and healthcare cost trend rates of 6.8% decreasing to 4.5%, as well as what the Company's net OPEB asset would be if it were calculated using a discount rate and healthcare cost trend rate that is 1% lower or 1% higher than the current rate.

	<u>1% Decrease</u>	<u>Current Rates</u>	<u>1% Increase</u>
Net OPEB asset with changes in discount rate	\$ 3,514	\$ 3,576	\$ 3,629
Net OPEB asset with changes in healthcare cost trend rates	\$ 3,648	\$ 3,576	\$ 3,495

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At June 30, 2018, the actuarially determined OPEB deferred inflows of resources are as follows:

Difference between expected and actual experience	\$	125
Net difference between projected and actual earnings on OPEB plan investments		<u>162</u>
	<u>\$</u>	<u>287</u>

Amounts reported as deferred inflows of resources related to the OPEB plan are scheduled to be recognized in OPEB income as follows:

Fiscal Year Ending June 30		
2019	\$	(165)
2020	\$	(41)
2021	\$	(41)
2022	\$	(40)

Prior to July 1, 2017, the Company accounted for OPEBs in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Projections of benefits for financial reporting purposes were based on the terms of the plan and the following actuarial assumptions which were determined as part of the January 1, 2015, actuarial valuation. The Company's annual required contribution ("ARC") was calculated using the Projected Unit Credit actuarial cost method.

The unfunded actuarial accrued liability was amortized using a level percentage of pay with a 30-year closed amortization period, of which 21 years remained. The actuarial assumptions included 6.5% post-retirement and 6.5% pre-retirement investment rate of return and a projected salary increase of 3.5% per year.

During fiscal year 2017, the Company funded 100% of the annual OPEB cost (credit). As of June 30, 2017, the net OPEB asset consisted of an actuarially determined credit due from the OPEB plan of \$143. During fiscal year 2018, the OPEB plan refunded the fiscal year 2017 net OPEB asset of \$143.

Defined contribution plan

The Company also maintains a defined contribution plan under Section 403(b) of the IRC which provides for voluntary contributions by employees upon employment and matching contributions by the Company after 90 days of service. Substantially all employees of the Company are eligible and may contribute up to 100% of their compensation, subject to certain IRC limitations. During the fiscal year ended June 30, 2012, upon January 1 or July 1 after the completion of 90 days of credited service, for every 1% the employee invested up to 6%, the Company matched 25% of the employee's contribution. Beginning on January 1, 2013, upon January 1 or July 1 after the completion of 90 days of credited service, for every 1% the employee invested up to 6%, the Company matched 50% of the employee's contribution. The Company recognized expense related to the 403(b) Plan of \$4,482 and \$4,048 in 2018 and 2017, respectively. There is no separate audited financial report available for the defined contribution plan, the 415 Plan or the OPEB plan.

12. Commitments and Contingencies

The Company is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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Professional liability

The Company established the contingency fund as a professional liability self-insurance fund in accordance with the Tennessee Governmental Tort Liability Act ("the Tort Act"), which restricts the District's exposure to professional liability risks to a pre-determined amount per occurrence.

The District is a "governmental entity" within the meaning of the Tort Act. As such, its maximum liability for state law tort causes of action is \$300 for bodily injury or death of any one person in accident, occurrence, or act, and \$700 for bodily injury or death of all persons in any one accident, occurrence, or act. These limits are subject to change by the Tennessee Legislature.

The Company's accrual for self-insured professional liability risks was \$4,037 and \$3,979 at June 30, 2018 and 2017, respectively, and was based on asserted claims for occurrences prior to that date.

Workers' compensation

Under the Tennessee Workers' Compensation Law, governmental entities such as the District need not accept the workers' compensation system, thereby remaining subject to common law liability for work-related injuries and retaining all common law defenses to such claims. The limits of liability under the Tort Act are applicable to such claims. The District has not accepted the workers' compensation system. The Tennessee Supreme Court has ruled this exemption applicable to the District's affiliate nonprofit corporations as well.

Self-insured health insurance

The Company is self-insured with respect to employee health insurance. Estimates of health insurance claims incurred but unpaid as of June 30, 2018 and 2017, are accrued based on estimates that incorporate the Company's past experience, as well as other considerations including the nature of claims and relevant trends. The Company accrued a liability for incurred but unpaid claims of approximately \$3,861 and \$3,452, as of June 30, 2018 and 2017, respectively, which is included in other accrued expenses in the accompanying statements of net position. The expenses related to claims paid during the years ended June 30, 2018 and 2017, are \$45,350 and \$43,022, respectively, and are included in salaries and benefits expense.

The following represents changes in those aggregate liabilities for estimates of health insurance for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Claims payable, beginning of year	\$ 3,452	\$ 3,777
Incurred claims expense	45,759	42,697
Claims payments	<u>(45,350)</u>	<u>(43,022)</u>
Claims payable, end of year	<u>\$ 3,861</u>	<u>\$ 3,452</u>

Litigation

The Company is subject to claims and suits which arise in the ordinary course of business. In the opinion of management, reserves for estimated losses on pending legal proceedings are adequate, and the ultimate resolution of any pending legal proceedings will not have a material effect on the Company's financial position. However, the ultimate outcome of such matters is unknown.

13. Concentrations

The Company purchased approximately 52% and 49% of medical supplies and drugs from two vendors for the years ended June 30, 2018 and 2017, respectively.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
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14. Investment in Joint Venture

Through June 30, 2017, the Company owned and operated a 48-bed inpatient rehabilitation unit located at Jackson-Madison County General Hospital, and HealthSouth Corporation owned and operated a 40-bed inpatient rehabilitation hospital known as HealthSouth Cane Creek Rehab Hospital, located in Martin, Tennessee. The Company and HealthSouth entered into a joint venture agreement for the (a) construction, development and operation of a new 48-bed inpatient rehabilitation hospital in Jackson, Tennessee, and (b) the continued operation of the Cane Creek Rehab Hospital in its current location. The parties formed a limited liability company with both parties receiving a 50% ownership. During the year ended June 30, 2017, the Company contributed cash to the joint venture for construction and other costs totaling \$13,781. Effective June 30, 2017, the Company discontinued its existing inpatient rehabilitation operations and made a contribution to the joint venture for the estimated value of those operations, resulting in a gain of \$12,988. The Company's investment in the joint venture is accounted for using the equity method and was carried at \$27,597 and \$26,769 as of June 30, 2018, and 2017, respectively. The Company recognized earnings from the joint venture of \$828 during the year ended June 30, 2018. Separately issued financial statements for the joint venture are not available. The carrying value of the Company's investment at June 30, 2018, approximates its share of underlying equity in the net assets of the joint venture, adjusted for the effects of contributed capital and other items in accordance with the terms of the joint venture agreement. The joint venture's assets and liabilities totaled \$57,038 and \$1,860, respectively, as of June 30, 2018. The joint venture's revenues and net income for the year ended June 30, 2018, were \$27,123 and \$2,321, respectively.

15. Obligated Group

As disclosed in Note 9, the Company has revenue bonds outstanding that are payable from the operating revenues of certain affiliates of the District (the "Obligated Group"). Summary financial information for the Obligated Group is as follows:

	June 30	
	2018	2017
Assets:		
Current assets	\$ 209,219	\$ 156,139
Capital assets	413,767	360,612
Other assets	<u>413,840</u>	<u>409,591</u>
	1,036,826	926,342
Deferred outflows of resources	<u>60,406</u>	<u>69,463</u>
Total assets and deferred outflows of resources	<u>\$ 1,097,232</u>	<u>\$ 995,805</u>
Liabilities:		
Current liabilities	\$ 163,120	\$ 67,338
Long-term debt	273,637	281,158
Net pension liability	<u>114,736</u>	<u>124,311</u>
	551,493	472,807
Net position:		
Unrestricted net position	420,169	389,746
Invested in capital assets, net of related financing	114,891	122,632
Restricted net position	<u>10,679</u>	<u>10,620</u>
	<u>545,739</u>	<u>522,998</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,097,232</u>	<u>\$ 995,805</u>

West Tennessee Healthcare and Related Affiliates
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(in thousands)

	Year Ended June 30	
	2018	2017
Net patient service revenues	\$ 642,350	\$ 619,347
Other revenues	33,976	29,419
Gain on contribution to joint venture	-	12,988
Total operating revenues	676,326	661,754
Operating expenses	606,222	580,911
Depreciation	46,158	44,477
Total operating expenses	652,380	625,388
Operating income	23,946	36,366
Net nonoperating revenues	13,609	24,986
Interest expense	(14,814)	(14,864)
Increase in net position	22,741	46,488
Net position, beginning of year	522,998	476,510
Net position, end of year	\$ 545,739	\$ 522,998
Net cash provided by (used in):		
Operating activities	\$ 19,122	\$ 88,874
Noncapital financing activities	(958)	(916)
Capital and related financing activities	35,862	(70,320)
Investing activities	(68,103)	(12,154)
	(14,077)	5,484
Cash and cash equivalents, beginning of year	25,961	20,477
Cash and cash equivalents, end of year	\$ 11,884	\$ 25,961

16. Blended Component Units

Jackson-Madison County General Hospital, Bolivar General Hospital, Camden General Hospital, Milan General Hospital, Volunteer Martin Hospital, Dyersburg Hospital, Pathways Behavioral Health, Medical Center Medical Products, Health Partners, Therapy & Learning Center and the West Tennessee Medical Group are considered blended component units ("BCUs") of West Tennessee Healthcare, as the governing body is substantively the same as the governing body of West Tennessee Healthcare and has operational responsibility of these component units. Separately issued financial statements are not available for any blended component unit. In the statements that follow, we present condensed combining information for the BCUs.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
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Statement of Net Position
June 30, 2018

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Eliminations	Total BCUs
ASSETS													
Current assets:													
Cash and cash equivalents	\$ 12,291	\$ 51	\$ 36	\$ (80)	\$ 8	\$ (327)	\$ 570	\$ -	\$ 1,218	\$ 26	\$ 55	\$ -	\$ 13,848
Accounts receivable, net	134,921	1,879	1,294	2,405	1,222	5,812	1,288	1,050	6,456	-	515	-	156,842
Other receivables	65,552	68	157	380	237	803	808	11	429	4	656	(60,851)	8,254
Inventories	7,778	225	192	555	191	2,313	198	728	308	-	-	-	12,488
Prepaid expenses	10,974	-	-	221	-	263	-	-	22	-	-	-	11,480
Assets limited to use - current portion	4,887	-	-	-	-	-	-	-	-	-	-	-	4,887
Total current assets	236,403	2,223	1,679	3,481	1,658	8,864	2,864	1,789	8,433	30	1,226	(60,851)	207,799
Assets limited as to use	363,036	-	-	-	-	-	-	-	-	-	-	-	363,036
Other assets	49,188	-	-	225	-	1,391	-	-	-	-	-	-	50,804
Capital assets, net	380,200	2,829	2,594	9,051	1,695	23,102	1,025	1,414	4,989	-	1,324	-	428,223
Total assets	1,028,827	5,052	4,273	12,757	3,353	33,357	3,889	3,203	13,422	30	2,550	(60,851)	1,049,862
DEFERRED OUTFLOWS OF RESOURCES													
	60,406	-	-	-	-	-	-	-	-	-	-	-	60,406
Total assets and deferred outflows of resources	<u>\$ 1,089,233</u>	<u>\$ 5,052</u>	<u>\$ 4,273</u>	<u>\$ 12,757</u>	<u>\$ 3,353</u>	<u>\$ 33,357</u>	<u>\$ 3,889</u>	<u>\$ 3,203</u>	<u>\$ 13,422</u>	<u>\$ 30</u>	<u>\$ 2,550</u>	<u>\$ (60,851)</u>	<u>\$ 1,110,268</u>
LIABILITIES													
Current liabilities:													
Accounts payable	\$ 26,878	\$ 308	\$ 90	\$ 792	\$ 153	\$ 2,320	\$ 86	\$ 337	\$ 419	\$ -	\$ 7	\$ -	\$ 31,390
Accrued compensation and related expenses	24,296	-	-	-	-	-	-	-	1,597	-	-	-	25,893
Accrued interest expense	3,297	-	-	-	-	-	-	-	-	-	-	-	3,297
Other accrued expenses	33,461	(18,509)	(16,563)	11,632	(7,381)	29,522	(13,123)	(24,983)	60,577	670	13,945	(60,851)	8,397
Estimated third-party settlements	531	-	-	-	1,817	-	2,778	-	-	-	-	-	5,126
Long-term debt due within one year	6,355	-	-	-	-	-	-	-	-	-	-	-	6,355
Bridge loan Payable	90,000	-	-	-	-	-	-	-	-	-	-	-	90,000
Total current liabilities	184,818	(18,201)	(16,473)	12,424	(5,411)	31,842	(10,259)	(24,646)	62,593	670	13,952	(60,851)	170,458
Other liabilities:													
Long-term debt, less amounts due within one year	273,637	-	-	-	-	-	-	-	-	-	-	-	273,637
Net pension liability	114,736	-	-	-	-	-	-	-	-	-	-	-	114,736
Total other liabilities	388,373	-	-	-	-	-	-	-	-	-	-	-	388,373
Total liabilities	573,191	(18,201)	(16,473)	12,424	(5,411)	31,842	(10,259)	(24,646)	62,593	670	13,952	(60,851)	558,831
NET POSITION													
Unrestricted	424,039	20,425	18,152	(8,718)	7,069	(21,587)	13,123	26,435	(54,160)	(640)	(12,727)	-	411,411
Net investment in capital assets	81,324	2,828	2,594	9,051	1,695	23,102	1,025	1,414	4,989	-	1,325	-	129,347
Restricted for debt service	10,679	-	-	-	-	-	-	-	-	-	-	-	10,679
Total net position	516,042	23,253	20,746	333	8,764	1,515	14,148	27,849	(49,171)	(640)	(11,402)	-	551,437
Total liabilities and net position	<u>\$ 1,089,233</u>	<u>\$ 5,052</u>	<u>\$ 4,273</u>	<u>\$ 12,757</u>	<u>\$ 3,353</u>	<u>\$ 33,357</u>	<u>\$ 3,889</u>	<u>\$ 3,203</u>	<u>\$ 13,422</u>	<u>\$ 30</u>	<u>\$ 2,550</u>	<u>\$ (60,851)</u>	<u>\$ 1,110,268</u>

West Tennessee Healthcare and Related Affiliates
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Statement of Net Position
June 30, 2017

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Camden General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Eliminations	Total BCUs
ASSETS											
Current assets:											
Cash and cash equivalents	\$ 25,961	\$ 219	\$ 146	\$ 194	\$ 1,020	\$ -	\$ 1,345	\$ 570	\$ 37	\$ -	\$ 29,492
Accounts receivable, net	101,027	1,549	1,143	999	1,294	1,221	5,412	-	353	-	112,998
Other receivables	(13,856)	77	166	274	581	9	429	4	584	16,113	4,381
Inventories	5,333	227	198	195	161	777	315	-	-	-	7,206
Prepaid expenses	8,605	-	-	-	-	-	-	-	-	-	8,605
Assets limited to use - current portion	4,867	-	-	-	-	-	-	-	-	-	4,867
Total current assets	131,937	2,072	1,653	1,662	3,056	2,007	7,501	574	974	16,113	167,549
Assets limited as to use	353,321	-	-	-	-	-	-	-	-	-	353,321
Other assets	47,693	-	-	-	-	-	-	-	-	-	47,693
Capital assets, net	359,286	2,821	2,874	1,081	1,239	1,326	1,036	-	1,383	-	371,046
Total assets	892,237	4,893	4,527	2,743	4,295	3,333	8,537	574	2,357	16,113	939,609
DEFERRED OUTFLOWS OF RESOURCES											
	78,040	-	-	-	-	-	-	-	-	-	78,040
Total assets and deferred outflows of resources	<u>\$ 970,277</u>	<u>\$ 4,893</u>	<u>\$ 4,527</u>	<u>\$ 2,743</u>	<u>\$ 4,295</u>	<u>\$ 3,333</u>	<u>\$ 8,537</u>	<u>\$ 574</u>	<u>\$ 2,357</u>	<u>\$ 16,113</u>	<u>\$ 1,017,649</u>
LIABILITIES											
Current liabilities:											
Accounts payable	\$ 22,734	\$ 317	\$ 88	\$ 137	\$ 61	\$ 418	\$ 327	\$ 1	\$ 12	\$ -	\$ 24,095
Accrued compensation and related expenses	20,013	-	-	-	-	-	1,296	-	-	-	21,309
Accrued interest expense	3,376	-	-	-	-	-	-	-	-	-	3,376
Other accrued expenses	12,810	(17,404)	(16,657)	(6,611)	(11,789)	(24,124)	45,367	441	12,817	16,113	10,963
Estimated third-party settlements	3,821	(280)	(28)	799	3,939	-	136	-	-	-	8,387
Long-term debt due within one year	6,095	-	-	-	-	-	-	-	-	-	6,095
Total current liabilities	68,849	(17,367)	(16,597)	(5,675)	(7,789)	(23,706)	47,126	442	12,829	16,113	74,225
Other liabilities:											
Long-term debt, less amounts due within one year	281,158	-	-	-	-	-	-	-	-	-	281,158
Net pension liability	124,311	-	-	-	-	-	-	-	-	-	124,311
Total other liabilities	405,469	-	-	-	-	-	-	-	-	-	405,469
Total liabilities	474,318	(17,367)	(16,597)	(5,675)	(7,789)	(23,706)	47,126	442	12,829	16,113	479,694
NET POSITION											
Unrestricted	364,033	19,439	18,250	7,337	10,845	25,713	(39,624)	131	(11,855)	-	394,269
Net investment in capital assets	121,306	2,821	2,874	1,081	1,239	1,326	1,035	1	1,383	-	133,066
Restricted for debt service	10,620	-	-	-	-	-	-	-	-	-	10,620
Total net position	495,959	22,260	21,124	8,418	12,084	27,039	(38,589)	132	(10,472)	-	537,955
Total liabilities and net position	<u>\$ 970,277</u>	<u>\$ 4,893</u>	<u>\$ 4,527</u>	<u>\$ 2,743</u>	<u>\$ 4,295</u>	<u>\$ 3,333</u>	<u>\$ 8,537</u>	<u>\$ 574</u>	<u>\$ 2,357</u>	<u>\$ 16,113</u>	<u>\$ 1,017,649</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Statement of Revenues and Expenses and Changes in Net Position
Year Ended June 30, 2018

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Revenue:												
Patient service revenues	\$ 2,089,795	\$ 42,377	\$ 29,665	\$ 16,192	\$ 27,988	\$ 63,255	\$ 18,639	\$ 39,628	\$ 117,117	\$ -	\$ 7,492	\$ 2,452,148
Deductions from revenue	1,467,167	31,868	23,192	13,787	19,723	57,427	7,811	28,139	73,697	-	4,827	1,727,638
Net patient service revenues	622,628	10,509	6,473	2,405	8,265	5,828	10,828	11,489	43,420	-	2,665	724,510
Other operating revenues	32,203	148	78	385	82	820	8,555	568	3,985	225	2,653	49,702
Total revenues	654,831	10,657	6,551	2,790	8,347	6,648	19,383	12,057	47,405	225	5,318	774,212
Operating expenses:												
Salaries, benefits, supplies and other	588,202	8,995	6,513	2,441	7,671	5,085	16,887	10,493	57,600	1,003	6,081	710,971
Depreciation and amortization	45,340	669	416	16	330	48	449	754	394	1	167	48,584
Total operating expenses	633,542	9,664	6,929	2,457	8,001	5,133	17,336	11,247	57,994	1,004	6,248	759,555
Operating income (loss)	21,289	993	(378)	333	346	1,515	2,047	810	(10,589)	(779)	(930)	14,657
Nonoperating revenues (expenses):												
Investment income	20,670	-	-	-	-	-	17	-	7	7	-	20,701
Interest expense	(14,814)	-	-	-	-	-	-	-	-	-	-	(14,814)
Contributions to affiliated entities	(958)	-	-	-	-	-	-	-	-	-	-	(958)
Other	(6,104)	-	-	-	-	-	-	-	-	-	-	(6,104)
Nonoperating revenues (expenses) net	(1,206)	-	-	-	-	-	17	-	7	7	-	(1,175)
Change in net position	20,083	993	(378)	333	346	1,515	2,064	810	(10,582)	(772)	(930)	13,482
Net position at beginning of year	495,959	22,260	21,124	-	8,418	-	12,084	27,039	(38,589)	132	(10,472)	537,955
Ending net position	\$ 516,042	\$ 23,253	\$ 20,746	\$ 333	\$ 8,764	\$ 1,515	\$ 14,148	\$ 27,849	\$ (49,171)	\$ (640)	\$ (11,402)	\$ 551,437

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Statement of Revenues and Expenses and Changes in Net Position
Year Ended June 30, 2017

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Camden General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Revenue:										
Patient service revenues	\$ 2,065,939	\$ 41,755	\$ 29,445	\$ 26,305	\$ 17,445	\$ 32,038	\$ 100,013	\$ -	\$ 6,856	\$ 2,319,796
Deductions from revenue	1,456,372	31,461	22,337	18,404	9,069	22,259	64,414	-	4,423	1,628,739
Net patient service revenues	609,567	10,294	7,108	7,901	8,376	9,779	35,599	-	2,433	691,057
Other operating revenues	41,924	619	466	106	7,239	483	3,022	314	2,404	56,577
Total revenues	651,491	10,913	7,574	8,007	15,615	10,262	38,621	314	4,837	747,634
Operating expenses:										
Salaries, benefits, supplies and other	571,633	8,991	6,504	7,122	15,746	9,277	45,944	556	5,741	671,514
Depreciation and amortization	43,760	633	428	270	375	717	274	1	164	46,622
Total operating expenses	615,393	9,624	6,932	7,392	16,121	9,994	46,218	557	5,905	718,136
Operating income (loss)	36,098	1,289	642	615	(506)	268	(7,597)	(243)	(1,068)	29,498
Nonoperating revenues (expenses):										
Investment income	25,901	-	3	-	12	-	5	3	-	25,924
Interest expense	(14,864)	-	-	-	-	-	-	-	-	(14,864)
Contributions to affiliated entities	(916)	-	-	-	-	-	-	-	-	(916)
Nonoperating revenues (expenses) net	10,121	-	3	-	12	-	5	3	-	10,144
Change in net position	46,219	1,289	645	615	(494)	268	(7,592)	(240)	(1,068)	39,642
Net position at beginning of year	449,740	20,971	20,479	7,803	12,578	26,771	(30,997)	372	(9,404)	498,313
Ending net position	\$ 495,959	\$ 22,260	\$ 21,124	\$ 8,418	\$ 12,084	\$ 27,039	\$ (38,589)	\$ 132	\$ (10,472)	\$ 537,955

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Condensed Statements of Cash Flows
Year Ended June 30, 2018

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Net cash provided by (used in) operating activities	\$ (13,530)	\$ 507	\$ 27	\$ 8,987	\$ 758	\$ 22,823	\$ (231)	\$ 842	\$ 4,213	\$ (549)	\$ 127	\$ 23,974
Net cash used in noncapital financing activities	(958)	-	-	-	-	-	-	-	-	-	-	(958)
Net cash provided by (used in) investing activities	(68,103)	-	-	-	-	-	18	-	7	5	-	(68,073)
Net cash provided by (used in) capital and related financing activities	68,921	(675)	(137)	(9,067)	(944)	(23,150)	(237)	(842)	(4,347)	-	(109)	29,413
Net change in cash and cash equivalents	(13,670)	(168)	(110)	(80)	(186)	(327)	(450)	-	(127)	(544)	18	(15,644)
Cash and cash equivalents, beginning of period	25,961	219	146	-	194	-	1,020	-	1,345	570	37	29,492
Cash and cash equivalents, end of period	<u>\$ 12,291</u>	<u>\$ 51</u>	<u>\$ 36</u>	<u>\$ (80)</u>	<u>\$ 8</u>	<u>\$ (327)</u>	<u>\$ 570</u>	<u>\$ -</u>	<u>\$ 1,218</u>	<u>\$ 26</u>	<u>\$ 55</u>	<u>\$ 13,848</u>

Year Ended June 30, 2017

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Camden General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Net cash provided by (used in) operating activities	\$ 88,090	\$ (10,182)	\$ (6,850)	\$ (2,587)	\$ (12,524)	\$ 784	\$ 471	\$ (18)	\$ 109	\$ 57,293
Net cash used in noncapital financing activities	(916)	-	-	-	-	-	-	-	-	(916)
Net cash provided by (used in) investing activities	(12,154)	10,068	6,627	2,152	8,397	-	4	3	-	15,097
Net cash provided by (used in) capital and related financing activities	(69,536)	(746)	(485)	(508)	23	(784)	(790)	2	(71)	(72,895)
Net change in cash and cash equivalents	5,484	(860)	(708)	(943)	(4,104)	-	(315)	(13)	38	(1,421)
Cash and cash equivalents, beginning of period	20,477	1,079	854	1,137	5,124	-	1,660	583	(1)	30,913
Cash and cash equivalents, end of period	<u>\$ 25,961</u>	<u>\$ 219</u>	<u>\$ 146</u>	<u>\$ 194</u>	<u>\$ 1,020</u>	<u>\$ -</u>	<u>\$ 1,345</u>	<u>\$ 570</u>	<u>\$ 37</u>	<u>\$ 29,492</u>

Required Supplementary Information

West Tennessee Healthcare and Related Affiliates
Schedule of Changes in Net Pension and OPEB Liability (Asset) and Related Ratios
(in thousands)

	Pension Plan				415(m) Pension Plan				OPEB Plan
	2018	2017	2016	2015	2018	2017	2016	2015	2018
Total pension and OPEB liability:									
Service cost	\$ 6,815	\$ 6,276	\$ 7,070	\$ 7,026	\$ -	\$ -	\$ -	\$ -	\$ 35
Interest	21,309	19,884	19,615	18,956	41	42	43	43	121
Differences between expected and actual experience	535	8,735	(5,213)	1,467	5	4	4	4	(374)
Benefit payments	(14,501)	(12,540)	(20,420)	(14,387)	(70)	(70)	(70)	(70)	(142)
Net change in total pension and OPEB liability	14,158	22,355	1,052	13,062	(24)	(24)	(23)	(23)	(360)
Total pension and OPEB liability - beginning	328,156	305,801	304,749	291,687	1,056	1,080	1,103	1,126	1,900
Total pension and OPEB liability - ending (a)	342,314	328,156	305,801	304,749	1,032	1,056	1,080	1,103	1,540
Plan fiduciary net position:									
Contributions - employer	18,000	18,000	17,040	12,992	70	70	70	70	-
Net investment income	20,210	(4,453)	1,341	24,480	-	-	-	-	519
Benefit payments	(14,501)	(12,540)	(20,419)	(14,387)	(70)	(70)	(70)	(70)	(532)
Administrative expense	-	(249)	(440)	(465)	-	-	-	-	-
Net change in Plan fiduciary net position	23,709	758	(2,478)	22,620	-	-	-	-	(13)
Plan fiduciary net position - beginning	204,901	204,143	206,621	184,000	-	-	-	-	5,129
Plan fiduciary net position - ending (b)	228,610	204,901	204,143	206,620	-	-	-	-	5,116
Net pension and OPEB liability (asset) (a)-(b)	\$ 113,704	\$ 123,255	\$ 101,658	\$ 98,129	\$ 1,032	\$ 1,056	\$ 1,080	\$ 1,103	\$ (3,576)
Plan fiduciary net position as a percentage of the total pension and OPEB liability	67%	62%	67%	68%	0%	0%	0%	0%	332%
Covered-employee payroll	\$ 148,645	\$ 150,997	\$ 141,412	\$ 153,252	N/A	N/A	N/A	N/A	\$ 265,123
Company's net pension and OPEB liability (asset) as a percentage of covered-employee payroll	76%	82%	72%	64%	N/A	N/A	N/A	N/A	-1.35%

Note: Information prior to 2015 for pension and 415(m) plan, and prior to 2018 for OPEB plan, is not available.

West Tennessee Healthcare and Related Affiliates
Schedule of Contributions
(in thousands)

	Pension Plan				415(m) Pension Plan				OPEB Plan
	2018	2017	2016	2015	2018	2017	2016	2015	2018
Actuarially determined contribution	\$ 12,300	\$ 15,427	\$ 15,552	\$ 13,141	\$ 70	\$ 70	\$ 70	\$ 70	\$ -
Contributions in relation to the actuarially determined contribution	(12,300)	(18,000)	(18,000)	(17,040)	(70)	(70)	(70)	(70)	-
Contribution deficiency (excess)	\$ -	\$ (2,573)	\$ (2,448)	\$ (3,899)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 148,645	\$ 150,997	\$ 141,412	\$ 153,252	N/A	N/A	N/A	N/A	\$ 265,123
Contributions as a percentage of covered-employee payroll	8%	12%	13%	11%	N/A	N/A	N/A	N/A	0%

Notes to the schedule:

Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. Information prior to 2015 for the pension and the 415(m) plan, and prior to 2018 for the OPEB plan, is not available.

Methods and assumptions used to determine contribution rates:

	Pension Plan			415(m) Plan	OPEB Plan		
Valuation date	June 30, one year prior to the end of the fiscal year			June 30, one year prior to the end of the fiscal year	June 30, one year prior to the end of the fiscal year		
Actuarial cost method	Entry Age Normal Cost			Entry Age Normal Cost	Entry Age Normal Cost		
Amortization method	Closed amortization			N/A	Closed amortization		
Amortization period of initial unfunded AAL	30 years			N/A	To be determined		
Remaining amortization method	30 years (as of June 30, 2018)			N/A	To be determined		
Asset valuation method	Market value			N/A	Market value		
CPI	2.5%			N/A	N/A		
Salary increases	3.5% average, including inflation			4%	3.5% average, including inflation		
Investment rate of return	6.5%, net of pension plan investment expense, including inflation				6.5%, net of pension plan investment expense, including inflation		
Mortality	RP-2014 Mortality Table for males and females with generational projections using Scale BB.			RP-2014 Mortality Table for males and females with generational projections using Scale BB.	RP-2014 Mortality Table for males and females with generational projections using Scale BB.		
Retirement age	Per the following table:			N/A	Per the following table:		
	Age	Male	Female		Age	Male	Female
	55 - 59	5.0%	5.0%		55 - 59	5.0%	5.0%
	60 - 61	7.5%	7.5%		60 - 61	7.5%	7.5%
	62	25.0%	25.0%		62	25.0%	25.0%
	63 - 64	20.0%	20.0%		63 - 64	20.0%	20.0%
	65	40.0%	40.0%		65	40.0%	40.0%
	66	30.0%	30.0%		66	30.0%	30.0%
	67 - 68	15.0%	15.0%		67 - 68	15.0%	15.0%
	69	25.0%	25.0%		69	25.0%	25.0%
	70+	100.0%	100.0%		70+	100.0%	100.0%

Other Information

**West Tennessee Healthcare and Related Affiliates
Deductions from Gross Patient Service Revenues
(in thousands)**

Year Ended June 30, 2018

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Medicare	\$ 806,444	\$ 14,834	\$ 8,197	\$ 5,905	\$ 8,754	\$ 29,930	\$ 781	\$ 6,964	\$ 37,323	\$ -	\$ -	\$ 919,132
TennCare	227,846	6,338	6,331	3,482	4,798	14,108	3,432	10,512	12,637	-	3,153	292,637
Other revenue deductions	391,271	8,695	6,477	4,400	4,392	13,389	3,341	9,810	20,412	-	1,655	463,842
Bad debt	41,606	2,001	2,187	-	1,779	-	257	853	3,325	-	19	52,027
	<u>\$ 1,467,167</u>	<u>\$ 31,868</u>	<u>\$ 23,192</u>	<u>\$ 13,787</u>	<u>\$ 19,723</u>	<u>\$ 57,427</u>	<u>\$ 7,811</u>	<u>\$ 28,139</u>	<u>\$ 73,697</u>	<u>\$ -</u>	<u>\$ 4,827</u>	<u>\$ 1,727,638</u>

Year Ended June 30, 2017

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Camden General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Medicare	\$ 804,380	\$ 14,706	\$ 7,765	\$ 8,250	\$ 791	\$ 7,567	\$ 33,705	\$ -	\$ -	\$ 877,164
TennCare	228,151	6,423	6,657	4,827	3,107	6,020	11,649	-	2,852	269,686
Other revenue deductions	383,596	8,590	5,941	3,651	4,898	7,941	17,264	-	1,569	433,450
Bad debt	40,245	1,742	1,974	1,676	273	731	1,796	-	2	48,439
	<u>\$ 1,456,372</u>	<u>\$ 31,461</u>	<u>\$ 22,337</u>	<u>\$ 18,404</u>	<u>\$ 9,069</u>	<u>\$ 22,259</u>	<u>\$ 64,414</u>	<u>\$ -</u>	<u>\$ 4,423</u>	<u>\$ 1,628,739</u>

West Tennessee Healthcare and Related Affiliates
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number or Contract Number	Expenditures
Federal Awards			
U.S. Department of Education:			
Tennessee Department of Education:			
Special Education - Grants for Infants and Families	84.181A	48116	\$ 234,226
Special Education - Grants for Infants and Families	84.181A	57834	42,001
Total U.S. Department of Education			<u>276,227</u>
U.S. Department of Health and Human Services:			
Tennessee Department of Human Services:			
Pass-Through from Signal Centers, Inc.			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	N/A	325,908
Total Tennessee Department of Human Services			<u>325,908</u>
Tennessee Department of Mental Health			
Substance Abuse Services:			
Block Grant for Community Mental Health Services	93.958	54763	120,046
	93.958	54769	36,000
			<u>156,046</u>
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	51515	111,204
Block Grant for Prevention and Treatment of Substance Abuse	93.959	54767	26,587
	93.959	DGA 53539_2017- 2018_013	159,216
	93.959	54836	130,000
	93.959	54764	410,340
	93.959	54596	25,620
	93.959	DGA 53380_2017- 2018_021	119,028
			<u>870,791</u>
Substance Abuse and Mental Health Services: Projects for Assistance in Transition from Homelessness	93.150	54773	58,500
Opioid STR	93.788	55706	199,836
	93.788	58360	44,571
	93.788	DGA 55356_2017- 2018_021	11,001
			<u>255,408</u>
Comprehensive Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	54744	63,071
	93.104	56196	131,525
			<u>194,596</u>
Total Tennessee Department of Mental Health Substance Abuse Services			1,646,545
Tennessee Department of Health:			
Small Rural Hospital Improvement Grant Program	93.301	157456	7,995
	93.301	157559	8,005
	93.301	157458	8,005
			<u>24,005</u>

West Tennessee Healthcare and Related Affiliates
Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2018

(Continued)

Federal Grantor/ Pass-Through Grantor/ Program or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number or Contract Number	Expenditures
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	172270	34,321
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	GG18-55419	42,675
Maternal, Infant, and Early Childhood Home Visiting Cluster:			
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	55982	451,096
Affordable Care Act ("ACA") Maternal, Infant and Early Childhood Home Visiting Program	93.505	49093	163,815
			<u>614,911</u>
Total Tennessee Department of Health			<u>715,912</u>
Total U.S. Department of Health and Human Services			<u>2,688,365</u>
Total Federal Awards			2,964,592
State Financial Assistance			
Tennessee Department of Education			
Special Education Grants for Infants and Families with Disabilities	N/A	57834 ⁽¹⁾	63,002
	N/A	48116 ⁽¹⁾	633,278
Total Tennessee Department of Education			<u>696,280</u>
Tennessee Department of Mental Health			
Division of Alcohol and Drug Abuse Services			
Projects for Assisting in Transition from Homelessness	N/A	54773 ⁽¹⁾	42,241
	N/A	54960	399,990
	N/A	DGA 53382_2017- 2018_011	1,119,116
	N/A	54770	30,000
	N/A	55148	309,131
	N/A	54790	32,450
	N/A	54769 ⁽¹⁾	4,835
	N/A	54828	193,000
	N/A	54567	99,308
	N/A	54530	1,807,520
	N/A	54819	41,005
	N/A	2018_005	308,700
			<u>4,387,296</u>
Block Grants for Community Mental Health Services	N/A	54763 ⁽¹⁾	7,830
Total Tennessee Department of Mental Health			4,395,126
Tennessee Department of Health			
Block Grant for Maternal and Child Health Services	N/A	49512	100,500
	N/A	49608	59,913
	N/A	158908	825
Total Tennessee Department of Health			<u>161,238</u>
Total State Awards			<u>5,252,644</u>
Total Federal and State Awards			<u>\$ 8,217,236</u>

⁽¹⁾ State participation in federally funded projects

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the "Schedule") summarizes expenditures of West Tennessee Healthcare and Related Affiliates (the "Company") under programs of the federal and state governments for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Company.

2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Pass-through Awards

No federal or state awards were passed through to subrecipients.

4. Indirect Cost Rate

The Company has elected not to use the 10% de minimis indirect cost rate allowed by Uniform Guidance.

5. Contingencies

The Company's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Company's continued participation in specific programs.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
West Tennessee Healthcare and Related Affiliates
Jackson, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Tennessee Healthcare and Related Affiliates (the "Company"), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues and expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Memphis, Tennessee
October 2, 2018

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
West Tennessee Healthcare and Related Affiliates
Jackson, Tennessee

Report on Compliance for the Major Federal Program

We have audited West Tennessee Healthcare and Related Affiliates' (the "Company") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Company's major federal programs for the year ended June 30, 2018. The Company's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Company's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal programs. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on the Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs to determine the auditing procedures

that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal programs and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Memphis, Tennessee
November 30, 2018

**West Tennessee Healthcare and Related Affiliates
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

Part I – Summary of Auditors' Results

1. The independent auditors' report expresses an unmodified opinion on whether the financial statements of West Tennessee Healthcare and Related Affiliates (the "Company") were prepared in accordance with accounting standards generally accepted in the United States of America ("GAAP").
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance considered material to the financial statements of the Company, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No material weaknesses or significant deficiencies in internal control over the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and Internal Control Over Compliance Required by the Uniform Guidance.
5. The Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance expressed an unmodified opinion on all major federal programs.
6. The audit disclosed no findings required to be reported by the Uniform Guidance.
7. The Company's major federal programs were the Block Grant for Prevention and Treatment of Substance Abuse (CFDA 93.959) and Maternal, Infant and Early Childhood Home Visiting Cluster (CFDA #93.87 and #93.505).
8. The threshold used to distinguish between Type A and Type B programs was \$750,000.
9. The Company qualifies as a low-risk auditee as that term is defined in the Uniform Guidance.

Part II – Financial Statement Audit Findings

None

Part III – Major Federal Award Programs Audit Findings and Questioned Costs

None

Part IV – Summary Schedule of Prior Audit Findings

None