

West Tennessee Healthcare and Related Affiliates

**Financial Statements and
Supplementary Information**

Years Ended June 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 8 and the pension and post-employment benefits information on pages 42 through 45 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.

Supplementary and 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 9 and the deductions from gross patient service revenues information on page 46 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The deductions from gross patient service revenues information is the responsibility of management and was 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 September 22, 2017, 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 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 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
September 22, 2017**

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, 2017 and 2016.

Financial highlights

2017

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

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.

2016

The Company incurred a \$5.0 million loss during the fiscal year with the demolition of the building at 616 West Forest on the JMCGH campus to make way for the construction of a new inpatient rehabilitation facility. Effective July 1, 2017, the new facility replaced the unit operated by JMCGH and is operated by a new joint venture, which will operate the unit as well as another inpatient rehabilitation facility in Martin, Tennessee.

Excluding the loss mentioned above, the Company's results from operations, including interest expense, exceeded budgeted expectations in 2016 with an operating margin of 2.6%.

Total operating revenues were 8% above the prior year, an increase of approximately \$50 million. The increase was driven primarily by improved volumes at the JMCGH flagship hospital. Additionally, the Company experienced improved revenue for its behavioral health and physician practices.

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.

Total operating expenses were up 9% from the prior year. Excluding the loss mentioned above, expenses were up 8%. A 10% increase in salaries and benefits resulted from routine wage adjustments as well as increased volume and related increase in premium and agency staffing. A 9% increase in supplies and other costs was driven primarily by increased hospital volumes.

The Company's non-operating revenue was down slightly as compared to the prior year due to deteriorating market conditions for the Company's investments.

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

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	Percentage	Dollar	Percentage
	2017	2016	2015	Increase (Decrease) 2016-2017	Increase (Decrease) 2016-2017	Increase (Decrease) 2015-2016	Increase (Decrease) 2015-2016
Current assets	\$ 167.6	\$ 162.2	\$ 158.5	\$ 5.4	3%	\$ 3.7	2%
Capital assets, net	371.0	364.2	362.2	6.8	2%	2.0	1%
Other non-current assets	409.6	386.3	390.4	23.3	6%	(4.1)	(1)%
Total assets	948.2	912.7	911.1	35.5	4%	1.6	0%
Deferred outflows of resources	69.4	53.0	53.9	16.4	31%	(.9)	(2)%
Total assets and deferred outflows	\$ 1,017.6	\$ 965.7	\$ 965.0	\$ 51.9	5%	\$.7	0%
Current liabilities	\$ 74.2	\$ 72.8	\$ 71.2	\$ 1.4	2%	\$ 1.6	2%
Non-current liabilities	405.5	391.2	394.8	14.3	4%	(3.6)	(1)%
Total liabilities	479.7	464.0	466.0	15.7	3%	(2.0)	0%
Deferred inflows of resources	-	3.4	10.1	(3.4)	100%	(6.7)	100%
Net position:							
Unrestricted	394.2	366.0	363.4	28.2	8%	2.6	1%
Invested in capital assets, net of related financing	133.0	121.6	114.8	11.4	9%	6.8	6%
Restricted	10.7	10.7	10.7	-	-	-	0%
Total net position	537.9	498.3	488.9	39.6	8%	9.4	2%
Total liabilities, deferred inflows and net position	\$ 1,017.6	\$ 965.7	\$ 965.0	\$ 51.9	5%	\$.7	0%

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 \$35.5 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 \$16.4 million or 31% due to the actual versus projected earnings of the Company's pension plan investments.
3. Total liabilities increased by \$15.7 million or 3% due primarily to an increase in the Company's net pension liability.

As indicated in Table A-1, net position increased during fiscal year 2016 by \$9.4 million or 2% with the Company's financial performance in fiscal year 2016.

1. Total assets increased by \$1.6 million or 0% due to growth in accounts receivable arising from volume and revenue growth, offset by a decrease in the value of the investment portfolio.
2. Total liabilities decreased by \$2 million or 0% due to regular debt payments and routine activity.

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

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
	2017	2016	2015	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
Net patient service revenues	\$ 691.0	\$ 675.1	\$ 626.8	\$ 15.9	2%	\$ 48.3	8%
Other operating revenues	56.6	39.4	37.0	17.2	44%		2.4
6%							
Total operating revenues	747.6	714.5	663.8	33.1	5%	50.7	8%
Salaries and benefits	397.9	375.9	341.8	22.0	6%	34.1	10%
Supplies and other expenses	273.6	265.5	243.9	8.1	3%	21.6	9%
Depreciation and amortization	46.6	44.6	45.3	2.0	4%	(0.7)	(2)%
Total expenses	718.1	686.0	631.0	32.1	5%	55.0	9%
Income from operations	29.5	28.5	32.8	1.0	4%	(4.3)	(13)%
Net non-operating revenues (expenses)	10.1	(19.1)	(17.3)	29.2	-153%	(1.8)	10%
Change in net position	39.6	9.4	15.5	30.2	321%	(6.1)	(39)%
Beginning net position	498.3	488.9	568.4	9.4	2%	(79.5)	(14)%
Cumulative effect of change in accounting principle	-	-	(95.0)	-	-	95.0	0%
Beginning net position, as restated	498.3	488.9	473.4	9.4	2%	15.5	3%
Ending net position	\$ 537.9	\$ 498.3	\$ 488.9	\$ 39.6	8%	\$ 9.4	2%

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 \$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 has 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 will operate 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 the year relates to the contribution of JMCGH's existing service to the joint venture.
3. In the final quarter of the fiscal year, the Company acquired and began operating a primary care practice added to the Company's medical group practice. The addition of this practice in the last quarter of fiscal year 2017 accounted for an increase in operating revenue of approximately \$1.0 million over the prior year.

Operating revenues increased by \$50.7 million or 8% from 2015 to 2016.

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

1. The increase was driven primarily by increased hospital inpatient and outpatient volumes.
2. The Company earned \$3.5 million in incentive payments for the meaningful use of electronic health records.

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 the fiscal year 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.

Operating expense increased by \$55.0 million or 9% when comparing 2016 to 2015.

1. The Company incurred a loss in fiscal year 2016 of \$5.0 million with the write-off of the remaining value of a building at 616 West Forest. The building was demolished in order to facilitate the construction of a new inpatient rehabilitation hospital on the site, replacing the existing inpatient rehabilitation unit currently operated inside JMCGH. The new facility will be operated as part of a new joint venture. The joint venture will operate the new facility as well as an existing inpatient rehabilitation facility in Martin, Tennessee, that was previously independently operated.
2. Total salaries and benefits expense increased by \$34.1 million or 10% during the fiscal year due to several factors, most notably employee rate adjustments and increases in staffing and in premium pay resulting from high volumes.
3. Supplies and other costs increased by \$21.6 million or 9%, mostly driven by increases in volume, particularly for hospital surgery and medical oncology cases.

Capital assets

As of June 30, 2017, the Company had \$371 million invested in a variety of capital assets, as reflected in Table A-3, which represents a net increase (additions, disposals and depreciation) of \$6.8 million or 2% from the end of last year.

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

Table A-3

Capital Assets (in millions of dollars)

	June 30	
	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 51.2	\$ 50.0
Buildings	311.5	301.3
Equipment	686.8	661.1
Construction in progress	<u>22.3</u>	<u>12.9</u>
Total capital assets	1,071.8	1,025.3
Accumulated depreciation	<u>(700.8)</u>	<u>(661.1)</u>
Capital assets, net	<u>\$ 371.0</u>	<u>\$ 364.2</u>

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, 2017, the Company had \$271.8 million in outstanding long-term debt and as of June 30, 2016, the Company had \$277.7 million in outstanding long-term debt. This represents a net decrease of \$5.9 million over the prior fiscal year.

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 Roster of Governance and Management Officials

Government Officials — Board of Trustees

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

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
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
Statements of Net Position
June 30, 2017 and 2016
(in thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 29,492	\$ 30,913
Accounts receivable:		
Patient accounts receivable, less allowances for doubtful accounts of approximately \$31,963 and \$22,870	112,998	108,636
Other	4,381	3,329
Total accounts receivable	<u>117,379</u>	<u>111,965</u>
Inventories	7,206	6,666
Prepaid expenses	8,605	7,779
Assets limited as to use - current portion of debt service reserve fund	<u>4,867</u>	<u>4,934</u>
Total current assets	167,549	162,257
Assets limited as to use:		
Debt service reserve fund	5,753	5,753
Board designated contingency fund	9,270	9,270
Other internally designated	<u>338,298</u>	<u>343,494</u>
	353,321	358,517
Other assets:		
Goodwill	10,109	8,930
Wellness Center loan receivable	16,872	16,693
Investment in joint venture	26,769	-
Other	<u>2,520</u>	<u>2,214</u>
	56,270	27,837
Capital assets:		
Land and land improvements	51,170	49,966
Buildings	311,493	301,342
Fixed equipment	215,041	213,156
Moveable equipment	471,838	447,934
Construction in progress	<u>22,260</u>	<u>12,936</u>
	1,071,802	1,025,334
Accumulated depreciation	<u>(700,756)</u>	<u>(661,168)</u>
	371,046	364,166
Total assets	948,186	912,777
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on refundings	30,361	32,870
Pension contributions subsequent to measurement date	18,070	18,070
Difference between expected and actual pension experience	4,572	-
Difference between actual and projected earnings on pension plan investments	<u>16,460</u>	<u>2,024</u>
Total deferred outflows of resources	69,463	52,964
Total assets and deferred outflows of resources	\$ 1,017,649	\$ 965,741

See accompanying notes.

	<u>2017</u>	<u>2016</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 24,095	\$ 26,506
Accrued compensation and related expenses	21,309	19,460
Accrued interest expense	3,376	3,424
Other accrued expenses	10,963	8,765
Estimated third-party settlements	8,387	8,818
Long-term debt due within one year	6,095	5,885
	<u>74,225</u>	<u>72,858</u>
Total current liabilities		
Other liabilities:		
Long-term debt, less amounts due within one year	281,158	288,444
Net pension liability	124,311	102,738
Total other liabilities	<u>405,469</u>	<u>391,182</u>
	<u>479,694</u>	<u>464,040</u>
Total liabilities		
DEFERRED INFLOWS OF RESOURCES		
Difference between expected and actual pension experience	-	3,388
	<u>-</u>	<u>3,388</u>
Total deferred inflows of resources		
NET POSITION		
Unrestricted	394,269	366,007
Net investment in capital assets	133,066	121,619
Restricted for debt service	10,620	10,687
	<u>537,955</u>	<u>498,313</u>
Total net position		
Total liabilities, deferred inflows of resources and net position		
	<u>\$ 1,017,649</u>	<u>\$ 965,741</u>

West Tennessee Healthcare and Related Affiliates
Statements of Revenues and Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016
(in thousands)

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Net patient service revenues, net of provision for bad debts of \$48,439 in 2017 and \$49,994 in 2016	\$ 691,057	\$ 675,064
Other revenues	43,589	39,416
Gain on contribution to joint venture (Note 13)	12,988	-
Total operating revenues	<u>747,634</u>	<u>714,480</u>
Operating expenses:		
Salaries and benefits	397,926	375,948
Supplies and other	273,588	260,426
Depreciation and amortization	46,622	44,561
Loss on building demolition, 616 West Forest	-	4,985
Total operating expenses	<u>718,136</u>	<u>685,920</u>
Operating income	<u>29,498</u>	<u>28,560</u>
Nonoperating revenues (expenses):		
Investment income (loss)	25,924	(3,042)
Interest expense	(14,864)	(15,154)
Contributions to affiliated entities	(916)	(940)
Nonoperating revenues (expenses), net	<u>10,144</u>	<u>(19,136)</u>
Increase in net position	<u>39,642</u>	<u>9,424</u>
Net position, beginning of year	<u>498,313</u>	<u>488,889</u>
Net position, end of year	<u>\$ 537,955</u>	<u>\$ 498,313</u>

West Tennessee Healthcare and Related Affiliates
Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(in thousands)

	<u>2017</u>	<u>2016</u>
Operating activities:		
Receipts from third-party payors and patients	\$ 685,644	\$ 667,802
Receipts from other operations	56,577	39,416
Payments to suppliers	(288,029)	(250,032)
Payments to employees	(396,899)	(389,456)
Net cash provided by operating activities	<u>57,293</u>	67,730
Noncapital financing activity:		
Capital contributions to City of Jackson and Madison County	<u>(916)</u>	(940)
Net cash used in noncapital financing activity	<u>(916)</u>	(940)
Investing activities:		
Interest, dividends, and realized gain on investments	2,725	3,561
Acquisition of physician practice and pharmacy	(2,310)	-
Investment in joint venture	(13,781)	-
Net change in restricted assets	<u>28,463</u>	<u>(2,834)</u>
Net cash provided by investing activities	<u>15,097</u>	727
Capital and related financing activities:		
Purchases of capital assets	(53,414)	(51,681)
Repayment of long-term debt	(5,885)	(6,270)
Interest paid on long-term debt	<u>(13,596)</u>	<u>(13,218)</u>
Net cash used in capital and related financing activities	<u>(72,895)</u>	<u>(71,169)</u>
Decrease in cash and cash equivalents	<u>(1,421)</u>	(3,652)
Cash and cash equivalents, beginning of year	<u>30,913</u>	34,565
Cash and cash equivalents, end of year	<u>\$ 29,492</u>	<u>\$ 30,913</u>

See accompanying notes.

West Tennessee Healthcare and Related Affiliates
Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(in thousands)

(Continued)

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	\$ 29,498	\$ 28,560
Adjustments to reconcile operating income to net cash provided by operating activities:		
Pension expense	17,247	13,173
Depreciation	46,307	44,249
Provision for bad debts	48,439	49,994
Gain on contribution to joint venture	(12,988)	-
Loss on disposals of capital assets	753	5,496
Amortization	315	312
Changes in operating assets and liabilities:		
Accounts receivable	(53,852)	(57,257)
Inventory and prepaid expenses	(1,075)	(146)
Other assets	(486)	(110)
Accounts payable and accrued expenses	1,636	(895)
Estimated third-party settlements	(431)	2,424
Deferred outflows - contributions to pension plan	(18,000)	(18,000)
Deferred outflows - contributions to 415(m) plan	(70)	(70)
Net cash provided by operating activities	<u>\$ 57,293</u>	<u>\$ 67,730</u>
Supplementary schedule of noncash investing activities:		
Change in fair value of investments	<u>\$ 23,199</u>	<u>\$ (6,603)</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
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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, 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.

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 hedged, 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.

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

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- 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.

Goodwill and other intangible assets

Intangible assets including goodwill 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. Provisions for depreciation are computed by the straight-line method based on the estimated useful lives of the assets.

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 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 2017 and 2016 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.

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

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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 \$93,138 and \$98,147, based on gross charges, for the years ended June 30, 2017 and 2016, 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 (less bad debt expense) divided by gross patient service revenue. The estimated cost of providing such services amounted to approximately \$43,000 for 2017 and 2016.

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 \$1,371 and \$3,457 for the years ended June 30, 2017 and 2016, respectively, are included in other revenues 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 revenues of \$1,236 and \$850 for the years ended June 30, 2017 and 2016, respectively.

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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% and 66% of gross patient service revenues for the fiscal years ended 2017 and 2016, respectively.

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

	<u>2017</u>	<u>2016</u>
Medicare	\$ 877,164	\$ 821,022
TennCare	269,686	257,205
Other	433,450	417,051
Bad debts	<u>48,439</u>	<u>49,993</u>
	<u>\$ 1,628,739</u>	<u>\$ 1,545,271</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 \$7,153 and \$8,051 received from TennCare/Medicaid were included in net revenues during the years ended June 30, 2017 and 2016, respectively.

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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

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 include those generated from direct patient care and sundry revenues 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, 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 Statements 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. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017 (the Company's fiscal year 2018).

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*, 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 requirements of Statement No. 82 are effective for reporting periods beginning after June 15, 2016, except for the requirements for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017 (the Company's fiscal year 2018).

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:

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- 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
- 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 requirements of this Statement are effective for reporting periods beginning after June 15, 2017 (the Company’s fiscal year 2018).

The primary objective of GASB Statement No. 86, *Certain Debt Extinguishment Issues*, is to improve 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.

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 requirements of Statement No. 86 are effective for reporting periods beginning after June 15, 2017 (the Company’s fiscal year 2018).

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Management is still evaluating the impact of the adoption of these standards on the financial statements, so the impact of adoption is currently unknown.

2. New Accounting Standards

During fiscal year 2017, the Company implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which clarifies the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The adoption of the above standard had no effect on the Company's statements of net position or statements of revenues and expenses and changes in net position.

3. 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.

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 8). 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.

Contingency fund and other internally designated

The Company established a 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.

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4. Cash and Investments

At June 30, 2017 and 2016, the Company had cash and deposits as follows:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 14	\$ 13
Cash insured (FDIC) or collateralized with securities held by the Company	1,703	1,579
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>27,775</u>	<u>29,321</u>
Total	<u>\$ 29,492</u>	<u>\$ 30,913</u>

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 FDIC. For deposits above and beyond the amount covered by federal deposit insurance, 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."

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 in 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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Investments' fair value measurements are as follows at June 30, 2017 and 2016:

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

	2016	Fair Value Measurements Using		
	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Mutual funds:				
Money market	\$ 12,924	\$ 12,924	\$ -	\$ -
Fixed income	62,830	62,830	-	-
Balanced	<u>49,039</u>	<u>49,039</u>	-	-
	124,793	124,793	-	-
Common stock	389	389	-	-
Limited partnership fund of funds	<u>3,155</u>	-	-	<u>3,155</u>
Total investments in the fair value hierarchy	128,337	<u>\$ 125,182</u>	<u>\$ -</u>	<u>\$ 3,155</u>
Investments measured at NAV	225,338			
Uninvested cash	<u>9,776</u>			
Total investments	<u>\$ 363,451</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, 2017 and 2016:

	2017	2016	Unfunded	Redemption	Redemption
	<u>Fair Value</u>	<u>Fair Value</u>	<u>Commitments</u>	<u>Frequency</u>	<u>Notice Period</u>
Limited partnerships and hedge funds					
Equity fund ^(a)	\$ 100,178*	\$ 83,052*	None	Daily	None
Core fixed income ^(b)	68,971*	66,166*	None	Daily	None
Public inflation hedge ^(c)	30,193*	31,946*	None	Daily	None
Real estate limited partnership ^(d)	33,341*	31,754*	None	Quarterly	60 days
Global domestic asset allocation ^(e)	<u>13,764</u>	<u>12,420</u>	None	Monthly	30 days
	<u>\$ 246,447</u>	<u>\$ 225,338</u>			

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

(a) This 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 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.

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- (c) This 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 fund actively manages a core portfolio consisting primarily of participating mortgage loans and equity real estate investments located in the United States.
- (e) This is 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.

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, 2017 and 2016, 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, 2017 and 2016, 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.

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.

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The credit risk profile of the Company's investments as of June 30, 2017, is as follows:

	Balance June 30, 2017	Rating				
		AAA	AA+/AA	A+	Aa	NA
Money Market						
Mutual Funds	\$ 13,360	\$ 13,360	\$ -	\$ -	\$ -	\$ -
Real Estate limited partnership at NAV	33,341	-	-	-	-	33,341
Mutual funds	95,566	6	42,839	-	-	52,721
Common stock	623	-	-	-	-	623
Limited partnerships	215,298	-	68,971	-	-	146,327
Total investments	358,188	13,366	111,810	-	-	233,012
Amounts required to meet current obligations	(4,867)	(4,867)	-	-	-	-
	<u>\$ 353,321</u>	<u>\$ 8,499</u>	<u>\$ 111,810</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,012</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.

The distribution of the Company's investments by maturity as of June 30, 2017, is as follows:

	Balance June 30, 2017	Maturity				
		12 Months or Less	12 to 24 Months	24 to 60 Months	Greater than 60 Months	NA
Money Market						
Mutual Funds	\$ 13,360	\$ 13,360	\$ -	\$ -	\$ -	\$ -
Real Estate limited partnership at NAV	33,341	-	-	-	-	33,341
Mutual funds	95,566	6	42,839	-	-	52,721
Common stock	623	-	-	-	-	623
Limited partnerships	215,298	-	-	-	68,971	146,327
Total investments	358,188	13,366	42,839	-	68,971	233,012
Amounts required to meet current obligations	(4,867)	(4,867)	-	-	-	-
	<u>\$ 353,321</u>	<u>\$ 8,499</u>	<u>\$ 42,839</u>	<u>\$ -</u>	<u>\$ 68,971</u>	<u>\$ 233,012</u>

For the years ended June 30, 2017 and 2016, investment income (loss) is comprised of the following:

	2017	2016
Interest, dividends, and realized gains on investments	\$ 2,725	\$ 3,561
Net increase (decrease) in fair value of investments	<u>23,199</u>	<u>(6,603)</u>
	<u>\$ 25,924</u>	<u>\$ (3,042)</u>

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5. 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.

6. Disaggregation of Payable Balances

Accounts payable at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Due to vendors	\$ 21,482	\$ 19,073
Due to patients and third-party payers	2,161	6,873
Other	<u>452</u>	<u>560</u>
Total accounts payable	<u>\$ 24,095</u>	<u>\$ 26,506</u>

Other accrued expenses at June 30, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Self-insured professional liability	\$ 3,979	\$ 3,954
Self-insured employee health claims liability	3,452	3,777
Other	<u>3,532</u>	<u>1,034</u>
Total other accrued expenses	<u>\$ 10,963</u>	<u>\$ 8,765</u>

7. Capital Assets

Capital assets activity for the years ended June 30, 2017 and 2016, consisted of the following:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance 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>

West Tennessee Healthcare and Related Affiliates
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	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>
Land	\$ 33,571	\$ 1,058	\$ 13	\$ (50)	\$ 34,592
Land improvements	15,160	5	441	(232)	15,374
Building	306,872	84	3,871	(9,485)	301,342
Equipment	<u>629,962</u>	<u>33,689</u>	<u>3,578</u>	<u>(6,139)</u>	<u>661,090</u>
	985,565	34,836	7,903	(15,906)	1,012,398
CIP	<u>3,994</u>	<u>16,845</u>	<u>(7,903)</u>	<u>-</u>	<u>12,936</u>
Total capital assets	989,559	51,681	-	(15,906)	1,025,334
Accumulated depreciation	<u>(627,329)</u>	<u>(44,249)</u>	<u>-</u>	<u>10,410</u>	<u>(661,168)</u>
Net capital assets	<u>\$ 362,230</u>	<u>\$ 7,432</u>	<u>\$ -</u>	<u>\$ (5,496)</u>	<u>\$ 364,166</u>

The Company recognized a loss in fiscal year 2016 of \$4,985 due to a write-down of the remaining value of a building at 616 West Forest.

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. Depreciation expense totaled \$46,307 and \$44,249, during the years ended June 30, 2017 and 2016, respectively.

Construction in progress at June 30, 2017, 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 \$15,754 in costs to complete these projects.

8. Long-Term Debt

Long-term debt consists of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Hospital Revenue Bonds, Series 2008	\$ 75,030	\$ 76,560
Less unamortized bond discount	(937)	(1,005)
Hospital Revenue Bonds, Series 2015	196,795	201,150
Plus unamortized bond premium	<u>16,365</u>	<u>17,624</u>
	287,253	294,329
Amount due within one year, Series 2008	(1,605)	(1,530)
Amount due within one year, Series 2015	<u>(4,490)</u>	<u>(4,355)</u>
Total amounts due within one year	<u>(6,095)</u>	<u>(5,885)</u>
Total long-term debt less amounts due within one year	<u>\$ 281,158</u>	<u>\$ 288,444</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).

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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.

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.

Long-term debt activity (excluding unamortized bond premium or discount) for the years ended June 30, 2017 and 2016, consisted of the following:

	<u>June 30,</u> <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2017</u>
Bonds payable	\$ 283,980	\$ -	\$ 6,270	\$ 277,710	\$ -	\$ 5,885	\$ 271,825

Scheduled principal and interest payments, including capital lease obligations and bonds payable, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
Fiscal years ending June 30:			
2018	\$ 6,095	\$ 13,354	\$ 19,449
2019	6,355	13,091	19,446
2020	6,675	12,770	19,445
2021	7,015	12,431	19,446
2022	7,370	12,076	19,446
2023-2027	42,860	54,368	97,228
2028-2032	54,950	42,267	97,217
2033-2037	70,750	26,482	97,232
2038-2041	69,755	8,024	77,779
	<u>271,825</u>	<u>194,863</u>	<u>466,688</u>
Unamortized bond premium, net	<u>15,428</u>	<u>-</u>	<u>15,428</u>
Total	<u>\$ 287,253</u>	<u>\$ 194,863</u>	<u>\$ 482,116</u>

9. Leases

The Company leases equipment under various operating leases. Rent expense for all operating leases and office space was approximately \$5,813 and \$5,724 for the years ended June 30, 2017 and 2016, 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, 2017:

2018	\$ 4,493
2019	4,173
2020	3,385
2021	2,315
2022	2,267
2023-2027	7,063
2028-2032	5,640
2033	568
	<u>\$ 29,904</u>

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10. 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, 2017 and 2016, consists of the following:

	<u>2017</u>	<u>2016</u>
Defined benefit pension plan	\$ 123,255	\$ 101,658
Supplemental 415(m) plan	<u>1,056</u>	<u>1,080</u>
	<u>\$ 124,311</u>	<u>\$ 102,738</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 Internal Audit Department, located at 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) 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) 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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Notes to Financial Statements
(in thousands)

At January 1, 2016 and January 1, 2015, the census dates used to measure the 2017 and 2016 total pension liability, respectively, the following employees were covered by the benefit terms of the Plan:

	<u>2017</u>	<u>2016</u>
Inactive employees or beneficiaries currently receiving benefits	1,134	1,121
Inactive employees or beneficiaries entitled to but not yet currently receiving benefits	750	770
Active employees	<u>2,650</u>	<u>2,796</u>
Total	<u><u>4,534</u></u>	<u><u>4,687</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, 2017 and 2016, the Company's average contribution rate was 11.9% and 12%, respectively, of annual payroll.

Net pension liability

The Company's net pension liability at June 30, 2017, was measured as of June 30, 2016, and the total pension liability used to calculate the 2017 net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the June 30, 2017, 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, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2015, to June 30, 2016.

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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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic & international equity securities	38%	6.9 - 8.3%
Fixed income securities	25%	(1.9) - 4.6%
Real estate and other	32%	5.1 - 7.8%
Cash equivalents	5%	2.2 - 2.9%
	<u>100%</u>	

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 2017 are based on a measurement date of June 30, 2016, and a measurement period of July 1, 2015 to June 30, 2016.

	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) – (b)</u>
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>21,587</u>
Balance, June 30, 2017	<u>\$ 328,156</u>	<u>\$ 204,901</u>	<u>\$ 123,255</u>

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The net pension liability and annual pension expense for fiscal year 2016 are based on a measurement date of June 30, 2015, and a measurement period of July 1, 2014, to June 30, 2015.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance, June 30, 2015	\$ 304,749	\$206,621	\$ 98,128
Service cost	7,070	-	7,070
Interest	19,615	-	19,615
Difference between expected and actual experience	(5,213)	-	(5,213)
Contributions – employer	-	17,040	(17,040)
Net investment income	-	1,341	(1,341)
Benefit payments	(20,419)	(20,419)	-
Administrative expense	-	(440)	440
Net changes	<u>1,053</u>	<u>(2,478)</u>	<u>3,530</u>
Balance, June 30, 2016	<u>\$ 305,802</u>	<u>\$ 204,143</u>	<u>\$ 101,659</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	\$ 167,808	\$ 123,255	\$ 86,214

For the years ended June 30, 2017 and 2016, the Company recognized pension expense of \$17,201 and \$13,127, respectively.

At June 30, 2017, and 2016, the Company reported pension deferred outflows of resources as noted below:

	2017	2016
Difference between expected and actual experience	\$ 4,572	\$ -
Net difference between projected and actual earnings on Plan investments	16,460	2,024
Pension contributions subsequent to the measurement date	<u>18,070</u>	<u>18,070</u>
	<u>\$ 39,102</u>	<u>\$ 20,094</u>

At June 30, 2017, and 2016, the Company reported pension deferred inflows of resources as noted below:

	2017	2016
Difference between expected and actual experience	\$ -	\$ 3,388
	<u>\$ -</u>	<u>\$ 3,388</u>

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Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,		
2018	\$	4,231
2019		4,231
2020		6,747
2021		4,354
2022		799
Thereafter		672

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 \$1,056 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.

The 415 Plan net pension liability of \$1,080 and annual pension expense of \$47 for fiscal year 2016 are based on a measurement date of June 30, 2015, and a measurement period of July 1, 2014 to June 30, 2015, as determined by an actuarial valuation as of that date. The total pension liability in the June 30, 2015, 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 accounts for OPEBs in accordance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The Company provides certain postretirement health insurance benefits to certain retired employees and their beneficiaries. Projections of benefits for financial reporting purposes are 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") is calculated using the Projected Unit Credit actuarial cost method.

The unfunded actuarial accrued liability is amortized using a level percentage of pay with a 30-year closed amortization period, of which 21 years remain. 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.

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The funded status of the OPEB Plan, including three-year trend information, was as follows:

OPEB Plan Three-year Trend Information			
Fiscal Year Ended	Annual OPEB Cost (Credit)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2015	\$ 1,097	100	\$ -
June 30, 2016	\$ (126)	100	\$ (317)
June 30, 2017	\$ (143)	100	\$ (143)

During 2016, the OPEB plan was amended to not allow participation for employees retiring after December 31, 2017. As of June 30, 2017, the net OPEB asset consisted of an actuarially determined refund due from the OPEB plan of \$143. As of June 30, 2016, the net OPEB asset consisted of \$191 of benefits payments made on behalf of the Plan plus an actuarially determined refund due from the OPEB plan of \$126. During fiscal year 2017, the OPEB plan refunded the fiscal year 2016 net OPEB asset plus \$215 of benefits payments made by the Company on behalf of the Plan, amounting to \$532.

Schedule of Funding Progress							
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Total Unfunded AAL (Funding Deficit) ("UAAL")	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll	
January 1, 2014	\$ 4,361	\$ 11,345	\$ 6,984	38%	\$ 240,750	2.9%	
January 1, 2015	5,109	2,541	(2,568)	201%	219,360	(1.2%)	
January 1, 2016	4,690	2,201	(2,489)	213%	242,881	(1.0%)	

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 \$4,048 and \$3,744 in 2017 and 2016, respectively. There is no separate audited financial report available for the defined contribution plan, the 415 Plan or the OPEB plan.

11. 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 \$3,979 and \$3,954 at June 30, 2017 and 2016, 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, 2017 and 2016, 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 \$3,452 and \$3,777, as of June 30, 2017 and 2016, 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, 2017 and 2016, are \$43,022 and \$46,291, 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>2017</u>	<u>2016</u>
Claims payable, beginning of year	\$ 3,777	\$ 3,713
Incurred claims expense	42,697	46,291
Claims payments	<u>(43,022)</u>	<u>(46,227)</u>
Claims payable, end of year	<u>\$ 3,452</u>	<u>\$ 3,777</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.

12. Concentrations

The Company purchased approximately 49% and 51% of medical supplies and drugs from two vendors for the years ended June 30, 2017 and 2016, respectively.

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13. 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. As of June 30, 2017, the Company's investment in the joint venture was \$26,769.

14. Obligated Group

As disclosed in Note 8, 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	
	2017	2016
Assets:		
Current assets	\$ 156,139	\$ 129,340
Capital assets	360,612	354,161
Other assets	<u>409,591</u>	<u>359,125</u>
	926,342	842,626
Deferred outflows of resources	<u>69,463</u>	<u>52,964</u>
Total assets and deferred outflows of resources	<u>\$ 995,805</u>	<u>\$ 895,590</u>
Liabilities:		
Current liabilities	\$ 67,338	\$ 24,510
Long-term debt	281,158	288,444
Net pension liability	<u>124,311</u>	<u>102,738</u>
	472,807	415,692
Deferred inflows of resources	-	3,388
Net position:		
Unrestricted net position	389,746	354,209
Invested in capital assets, net of related financing	122,632	111,614
Restricted net position	<u>10,620</u>	<u>10,687</u>
	522,998	476,510
Total liabilities, deferred inflows of resources and net position	<u>\$ 995,805</u>	<u>\$ 895,590</u>

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

	Year Ended June 30	
	2017	2016
Net patient service revenues	\$ 619,347	\$ 603,537
Other revenues	29,419	25,339
Gain on contribution to joint venture	12,988	-
Total revenues	<u>661,754</u>	628,876
Operating expenses	580,911	557,008
Depreciation	44,477	42,512
Total expenses	<u>625,388</u>	599,520
Operating income	36,366	29,356
Net nonoperating revenues (expenses)	24,986	(3,690)
Interest expense	(14,864)	(15,154)
Increase in net position	46,488	10,512
Net position, beginning of year	476,510	465,998
Net position, end of year	<u>\$ 522,998</u>	<u>\$ 476,510</u>
Net cash provided by (used in):		
Operating activities	\$ 88,874	\$ 65,630
Noncapital financing activities	(916)	(941)
Capital and related financing activities	(70,320)	(68,829)
Investing activities	(12,154)	699
	5,484	(3,441)
Cash and cash equivalents, beginning of year	20,477	23,918
Cash and cash equivalents, end of year	<u>\$ 25,961</u>	<u>\$ 20,477</u>

15. Blended Component Units

We consider Jackson-Madison County General Hospital, Bolivar General Hospital, Camden General Hospital, Milan General Hospital, Pathways Behavioral Health, Medical Center Medical Products, Health Partners, Therapy & Learning Center and the West Tennessee Medical Group 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.

In the statements that follow, we present condensed combining information for the BCUs mentioned above.

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

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	56,270	-	-	-	-	-	-	-	-	-	56,270
Capital assets, net	359,286	2,821	2,874	1,081	1,239	1,326	1,036	-	1,383	-	371,046
Total assets	900,814	4,893	4,527	2,743	4,295	3,333	8,537	574	2,357	16,113	948,186
DEFERRED OUTFLOWS OF RESOURCES											
	69,463	-	-	-	-	-	-	-	-	-	69,463
Total assets and deferred outflows of resources	\$ 970,277	\$ 4,893	\$ 4,527	\$ 2,743	\$ 4,295	\$ 3,333	\$ 8,537	\$ 574	\$ 2,357	\$ 16,113	\$ 1,017,649
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	\$ 970,277	\$ 4,893	\$ 4,527	\$ 2,743	\$ 4,295	\$ 3,333	\$ 8,537	\$ 574	\$ 2,357	\$ 16,113	\$ 1,017,649

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

Statement of Net Position
June 30, 2016

	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	\$ 20,477	\$ 1,079	\$ 854	\$ 1,137	\$ 5,124	\$ -	\$ 1,660	\$ 582	\$ -	\$ -	\$ 30,913
Accounts receivable, net	99,703	1,587	1,028	1,112	1,305	1,562	1,917	-	422	-	108,636
Other receivables	11,649	53	149	233	501	7	1,035	5	336	(10,639)	3,329
Inventories	4,940	249	220	181	136	738	202	-	-	-	6,666
Prepaid expenses	7,777	-	-	2	-	-	-	-	-	-	7,779
Assets limited as to use - current portion	4,934	-	-	-	-	-	-	-	-	-	4,934
Total current assets	149,480	2,968	2,251	2,665	7,066	2,307	4,814	587	758	(10,639)	162,257
Assets limited as to use	331,289	10,068	6,623	2,152	8,385	-	-	-	-	-	358,517
Other assets	27,837	-	-	-	-	-	-	-	-	-	27,837
Capital assets, net	352,902	2,709	2,817	843	1,637	1,259	519	3	1,477	-	364,166
Total assets	861,508	15,745	11,691	5,660	17,088	3,566	5,333	590	2,235	(10,639)	912,777
DEFERRED OUTFLOWS OF RESOURCES	52,964	-	-	-	-	-	-	-	-	-	52,964
Total assets and deferred outflows of resources	<u>\$ 914,472</u>	<u>\$ 15,745</u>	<u>\$ 11,691</u>	<u>\$ 5,660</u>	<u>\$ 17,088</u>	<u>\$ 3,566</u>	<u>\$ 5,333</u>	<u>\$ 590</u>	<u>\$ 2,235</u>	<u>\$ (10,639)</u>	<u>\$ 965,741</u>
LIABILITIES											
Current liabilities:											
Accounts payable	\$ 25,628	\$ 269	\$ 65	\$ 116	\$ 37	\$ 286	\$ 95	\$ -	\$ 10	\$ -	\$ 26,506
Accrued compensation and related expenses	20,456	-	-	-	-	-	(996)	-	-	-	19,460
Accrued interest expense	3,424	-	-	-	-	-	-	-	-	-	3,424
Other accrued expenses	6,393	(5,439)	(8,825)	(2,677)	4,472	(23,491)	37,123	218	11,630	(10,639)	8,765
Estimated third-party settlements	8,376	(55)	(28)	417	-	-	108	-	-	-	8,818
Long-term debt due within one year	5,885	-	-	-	-	-	-	-	-	-	5,885
Total current liabilities	70,162	(5,225)	(8,788)	(2,144)	4,509	(23,205)	36,330	218	11,640	(10,639)	72,858
Other liabilities:											
Long-term debt, less amounts due within one year	288,444	-	-	-	-	-	-	-	-	-	288,444
Net pension liability	102,738	-	-	-	-	-	-	-	-	-	102,738
Total liabilities	461,344	(5,225)	(8,788)	(2,144)	4,509	(23,205)	36,330	218	11,640	(10,639)	464,040
DEFERRED INFLOWS OF RESOURCES	3,388	-	-	-	-	-	-	-	-	-	3,388
NET POSITION											
Unrestricted	328,698	18,262	17,662	6,961	10,942	25,511	(31,516)	369	(10,882)	-	366,007
Net investment in capital assets	110,355	2,708	2,817	843	1,637	1,260	519	3	1,477	-	121,619
Restricted for debt service	10,687	-	-	-	-	-	-	-	-	-	10,687
Total net position	449,740	20,970	20,479	7,804	12,579	26,771	(30,997)	372	(9,405)	-	498,313
Total liabilities, deferred inflows of resources and net position	<u>\$ 914,472</u>	<u>\$ 15,745</u>	<u>\$ 11,691</u>	<u>\$ 5,660</u>	<u>\$ 17,088</u>	<u>\$ 3,566</u>	<u>\$ 5,333</u>	<u>\$ 590</u>	<u>\$ 2,235</u>	<u>\$ (10,639)</u>	<u>\$ 965,741</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, 2017

	<u>Jackson-Madison County General Hospital</u>	<u>Milan General Hospital</u>	<u>Bolivar General Hospital</u>	<u>Camden General Hospital</u>	<u>Pathways Behavioral Health</u>	<u>Medical Center Medical Products</u>	<u>West Tennessee Medical Group</u>	<u>Health Partners</u>	<u>Therapy & Learning Center</u>	<u>Total BCUs</u>
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	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)

Statement of Revenues and Expenses and Changes in Net Position
Year Ended June 30, 2016

	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	\$ 1,978,377	\$ 41,071	\$ 29,648	\$ 23,520	\$ 15,736	\$ 27,597	\$ 97,622	\$ -	\$ 6,764	\$ 2,220,335
Deductions from revenue	1,385,046	30,392	22,553	15,786	6,793	17,391	62,926	-	4,384	1,545,271
Net patient service revenues	593,331	10,679	7,095	7,734	8,943	10,206	34,696	-	2,380	675,064
Other operating revenues	24,929	1,241	1,104	110	7,079	411	1,661	484	2,397	39,416
Total revenues	618,260	11,920	8,199	7,844	16,022	10,617	36,357	484	4,777	714,480
Operating expenses:										
Salaries, benefits, supplies and other	548,530	8,803	6,552	6,847	15,570	8,478	39,570	1,369	5,640	641,359
Depreciation and amortization	41,775	589	389	271	402	737	255	7	136	44,561
Total operating expenses	590,305	9,392	6,941	7,118	15,972	9,215	39,825	1,376	5,776	685,920
Operating income	27,955	2,528	1,258	726	50	1,402	(3,468)	(892)	(999)	28,560
Nonoperating revenues (expenses):										
Investment income (loss)	(2,750)	(117)	(70)	(23)	(88)	-	3	3	-	(3,042)
Interest expense	(15,154)	-	-	-	-	-	-	-	-	(15,154)
Contributions to related entities	(940)	-	-	-	-	-	-	-	-	(940)
Nonoperating revenues (expenses) net	(18,844)	(117)	(70)	(23)	(88)	-	3	3	-	(19,136)
Change in net position	9,111	2,411	1,188	703	(38)	1,402	(3,465)	(889)	(999)	9,424
Beginning net position	440,629	18,559	19,291	7,101	12,617	25,369	(27,532)	1,261	(8,406)	488,889
Ending net position	\$ 449,740	\$ 20,970	\$ 20,479	\$ 7,804	\$ 12,579	\$ 26,771	\$ (30,997)	\$ 372	\$ (9,405)	\$ 498,313

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

Condensed Statements of Cash Flows
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 provided by (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	\$ 25,961	\$ 219	\$ 146	\$ 194	\$ 1,020	\$ -	\$ 1,345	\$ 570	\$ 37	\$ 29,492

Year Ended June 30, 2016

	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	\$ 65,025	\$ 570	\$ 419	\$ 175	\$ 2,498	\$ 606	\$ (967)	\$ (673)	\$ 77	\$ 67,730
Net cash provided by (used in) noncapital financing activities	(941)	-	-	-	-	-	-	-	-	(941)
Net cash provided by (used in) investing activities	699	2	8	2	11	-	3	2	-	727
Net cash provided by (used in) capital and related financing activities	(68,223)	(1,170)	(626)	(212)	(201)	(606)	(54)	1	(78)	(71,169)
Net change in cash and cash equivalents	(3,440)	(598)	(199)	(35)	2,308	-	(1,018)	(670)	(1)	(3,652)
Cash and cash equivalents, beginning of period	23,917	1,677	1,053	1,172	2,816	-	2,678	1,252	-	34,565
Cash and cash equivalents, end of period	\$ 20,477	\$ 1,079	\$ 854	\$ 1,137	\$ 5,124	\$ -	\$ 1,660	\$ 582	\$ (1)	\$ 30,913

Required Supplementary Information

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

	Pension			415(m) Plan		
	2017	2016	2015	2017	2016	2015
Total pension liability:						
Service cost	\$ 6,276	\$ 7,070	\$ 7,026	\$ -	\$ -	\$ -
Interest	19,884	19,615	18,956	42	43	43
Differences between expected and actual experience	8,735	(5,213)	1,467	4	4	4
Benefit payments	(12,540)	(20,419)	(14,387)	(70)	(70)	(70)
Net change in total pension liability	22,355	1,053	13,062	(24)	(23)	(23)
Total pension liability - beginning	305,801	304,749	291,687	1,080	1,103	1,126
Total pension liability - ending (a)	328,156	305,802	304,749	1,056	1,080	1,103
Plan fiduciary net position:						
Contributions - employer	18,000	17,040	12,992	70	70	70
Net investment income	(4,453)	1,341	24,480	-	-	-
Benefit payments	(12,540)	(20,419)	(14,387)	(70)	(70)	(70)
Administrative expense	(249)	(440)	(465)	-	-	-
Net change in Plan fiduciary net position	758	(2,478)	22,620	-	-	-
Plan fiduciary net position - beginning	204,143	206,621	184,000	-	-	-
Plan fiduciary net position - ending (b)	204,901	204,143	206,620	-	-	-
Net pension liability (a)-(b)	\$ 123,255	\$ 101,659	\$ 98,129	\$ 1,056	\$ 1,080	\$ 1,103
Plan fiduciary net position as a percentage of the total pension liability	62%	67%	68%	0%	0%	0%
Covered-employee payroll	\$ 150,997	\$ 141,412	\$ 153,252	N/A	N/A	N/A
Company's net pension liability as a percentage of covered-employee payroll	82%	72%	64%	N/A	N/A	N/A

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

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

Notes to the schedule valuation date:

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.

Methods and assumptions used to determine contribution rates:

	Pension	415(m) 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
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Closed amortization	N/A
Amortization period of initial unfunded AAL	To be determined	N/A
Remaining amortization method	To be determined	N/A
Asset valuation method	Market value	N/A
CPI	2.5%	N/A
Salary increases	3.5% average, including inflation	4%
Investment rate of return	6.5%, net of pension plan including inflation	N/A
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.
Retirement age	Per the following table:	N/A

Age	Male	Female
55 - 59	5.0%	5.0%
60 - 61	7.5%	7.5%
62	25.0%	25.0%
63 - 64	20.0%	20.0%
65	40.0%	40.0%
66	30.0%	30.0%
67 - 68	15.0%	15.0%
69	25.0%	25.0%
70+	100.0%	100.0%

West Tennessee Healthcare and Related Affiliates
Defined Benefit Retirement Plans Schedule of Employer Contributions (Unaudited)
(in thousands)

Pension Plan^(a)				
Year Ended December 31	Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percentage Contributed
2008	June 30, 2009	\$ 10,937	\$ 10,937	100%
2009	June 30, 2010	11,068	11,068	100%
2010	June 30, 2011	11,217	11,217	100%
2011	June 30, 2012	12,556	12,556	100%
2012	June 30, 2013	13,093	13,093	100%
2013	June 30, 2014	12,992	12,992	100%

Supplemental 415(m) Plan^(a)				
Year Ended December 31	Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percentage Contributed
2008	June 30, 2009	\$ 91	\$ 64	70%
2009	June 30, 2010	92	70	76%
2010	June 30, 2011	95	70	74%
2011	June 30, 2012	99	70	71%
2012	June 30, 2013	102	70	69%
2013	June 30, 2014	114	70	61%

OPEB Plan				
Year Ended December 31	Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percentage Contributed
2008	June 30, 2009	\$ 647	\$ 647	100%
2009	June 30, 2010	791	791	100%
2010	June 30, 2011	826	826	100%
2011	June 30, 2012	938	938	100%
2012	June 30, 2013	908	908	100%
2013	June 30, 2014	1,051	1,051	100%
2014	June 30, 2015	1,097	1,097	100%
2015	June 30, 2016	(126)	191	100%
2016	June 30, 2017	(143)	-	N/A

^(a) The actuarially determined contribution requirements for the Company's fiscal years ended June 30, 2014, and and later are based on actuarial valuations as of the preceding January 1, and are prior to the adoption of GASB Statement No. 68.

West Tennessee Healthcare and Related Affiliates
Defined Benefit Retirement Plans Schedule of Funding Progress (Unaudited)
(in thousands)

Pension Plan^(a)							
Actuarial Valuation Date	Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Total Unfunded AAL (Funding Deficit) ("UAAL")	Funded Ratio	Annual Covered Payroll	UAAL As % of Covered Payroll
January 1, 2011	June 30, 2012	\$ 178,928	\$ 228,607	\$ 49,680	78%	\$ 158,948	31%
January 1, 2012	June 30, 2013	179,551	239,688	60,137	75%	156,335	39%
January 1, 2013	June 30, 2014	184,954	249,310	64,356	74%	152,441	42%

Supplemental 415(m) Plan^(a)							
Actuarial Valuation Date	Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Total Unfunded AAL (Funding Deficit) ("UAAL")	Funded Ratio	Annual Covered Payroll	UAAL As % of Covered Payroll
July 1, 2011	June 30, 2012	\$ -	\$ 917	\$ 917	0%	NA	NA
July 1, 2012	June 30, 2013	-	901	901	0%	NA	NA
July 1, 2013	June 30, 2014	-	1,069	1,069	0%	NA	NA

OPEB Plan							
Actuarial Valuation Date	Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Total Unfunded AAL (Funding Deficit) ("UAAL")	Funded Ratio	Annual Covered Payroll	UAAL As % of Covered Payroll
January 1, 2011	June 30, 2012	\$ 2,301	\$ 8,973	\$ 6,672	26%	NA	NA
January 1, 2012	June 30, 2013	2,930	9,252	6,321	32%	\$ 231,463	3%
January 1, 2013	June 30, 2014	3,776	10,716	6,940	35%	230,246	3%
January 1, 2014	June 30, 2015	4,361	11,345	6,984	38%	240,750	3%
January 1, 2015	June 30, 2016	5,109	2,541	(2,568)	201%	219,360	-1%
January 1, 2016	June 30, 2017	4,690	2,201	(2,489)	213%	242,881	-1%

(a) prior to the adoption of GASB Statement No. 68

Other Information

**West Tennessee Healthcare and Related Affiliates
Deductions from Gross Patient Service Revenues
Years Ended June 30, 2017 and 2016
(in thousands)**

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>

Year Ended June 30, 2016

	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	\$ 751,558	\$ 14,478	\$ 8,443	\$ 6,919	\$ 910	\$ 5,723	\$ 32,991	\$ -	\$ -	\$ 821,022
TennCare	217,181	6,263	6,364	3,673	5,001	2,066	13,934	-	2,723	257,205
Other revenue deductions	376,405	7,823	5,832	3,557	578	8,828	12,376	-	1,652	417,051
Bad debt	39,902	1,828	1,914	1,637	304	774	3,625	-	9	49,993
	<u>\$ 1,385,046</u>	<u>\$ 30,392</u>	<u>\$ 22,553</u>	<u>\$ 15,786</u>	<u>\$ 6,793</u>	<u>\$ 17,391</u>	<u>\$ 62,926</u>	<u>\$ -</u>	<u>\$ 4,384</u>	<u>\$ 1,545,271</u>

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, 2017, 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 September 22, 2017.

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
September 22, 2017