



SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Basic Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Shelby County Health Care Corporation:

We have audited the accompanying balance sheets of Shelby County Health Care Corporation, a component unit of Shelby County, Tennessee (d/b/a The Regional Medical Center at Memphis – “The Med”) as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of The Med’s management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Med’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shelby County Health Care Corporation as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009 on our consideration of The Med’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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Med has not presented management’s discussion and analysis that U.S. generally accepted accounting principles require to supplement, although not to be part of, the basic financial statements.

KPMG LLP

November 24, 2009

SHELBY COUNTY HEALTH CARE CORPORATION

Balance Sheets

June 30, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 38,602,840	35,278,399
Investments	3,484,123	3,337,404
Patient accounts receivable, net of allowances for uncollectible accounts of \$80,528,000 in 2009 and \$73,885,000 in 2008	22,338,257	23,573,365
Other receivables	9,923,709	18,197,127
Other current assets	5,364,185	4,434,606
Total current assets	<u>79,713,114</u>	<u>84,820,901</u>
Restricted investments	4,464,255	4,798,105
Capital assets, net	60,555,797	69,358,083
Investments in joint ventures	7,092,667	8,737,667
Other assets	36,829	43,745
Total assets	<u>\$ 151,862,662</u>	<u>167,758,501</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 20,470,874	17,473,419
Accrued expenses and other current liabilities	19,009,466	21,214,738
Current installments of capital lease obligation	354,822	—
Current installments of amounts payable to Shelby County	1,234,598	1,110,103
Total current liabilities	<u>41,069,760</u>	<u>39,798,260</u>
Capital lease obligation, excluding current installments	1,236,562	—
Amounts payable to Shelby County, excluding current installments	2,098,320	3,332,918
Accrued professional and general liability costs	10,130,000	7,299,000
Net postemployment benefit obligation	720,000	480,000
Total liabilities	<u>55,254,642</u>	<u>50,910,178</u>
Net assets:		
Invested in capital assets, net of related debt	55,631,495	64,915,062
Restricted for:		
Capital assets	3,622,551	3,476,230
Indigent care	1,203,029	1,183,272
Unrestricted	36,150,945	47,273,759
Total net assets	<u>96,608,020</u>	<u>116,848,323</u>
Commitments and contingencies		
Total liabilities and net assets	<u>\$ 151,862,662</u>	<u>167,758,501</u>

See accompanying notes to basic financial statements.

SHELBY COUNTY HEALTH CARE CORPORATION

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Net patient service revenue (including additional incremental reimbursement from various state agencies for participation in TennCare/Medicaid programs of approximately \$36,505,000 in 2009 and \$41,597,000 in 2008)	\$ 263,645,491	280,765,708
Other revenue	9,827,446	9,765,156
Total operating revenues	<u>273,472,937</u>	<u>290,530,864</u>
Operating expenses:		
Salaries and benefits	154,009,742	166,844,416
Supplies and services	69,140,114	69,691,760
Physician and professional fees	34,208,794	36,891,003
Purchased medical services	14,344,622	9,878,261
Plant operations	11,877,915	11,396,277
Insurance	7,688,820	4,788,256
Administrative and general	20,429,376	17,162,593
Community services	418,715	565,603
Depreciation and amortization	13,022,436	13,593,878
Total operating expenses	<u>325,140,534</u>	<u>330,812,047</u>
Operating loss	<u>(51,667,597)</u>	<u>(40,281,183)</u>
Nonoperating revenues (expenses):		
Interest expense	(238,310)	(261,772)
Investment income	505,521	1,700,220
Appropriations from Shelby County	31,291,667	31,400,000
Gain (loss) on disposal of capital assets	13,416	(506,354)
Equity in earnings (loss) of joint ventures	(145,000)	5,723,020
Total nonoperating revenues, net	<u>31,427,294</u>	<u>38,055,114</u>
Decrease in net assets	<u>(20,240,303)</u>	<u>(2,226,069)</u>
Net assets, beginning of year	<u>116,848,323</u>	<u>119,074,392</u>
Net assets, end of year	<u>\$ 96,608,020</u>	<u>116,848,323</u>

See accompanying notes to basic financial statements.

SHELBY COUNTY HEALTH CARE CORPORATION

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients and third-party payors	\$ 272,402,884	272,155,564
Other cash receipts	10,718,934	10,641,134
Payments to suppliers	(154,473,499)	(149,194,596)
Payments to employees and related benefits	<u>(154,485,242)</u>	<u>(165,772,321)</u>
Net cash used in operating activities	<u>(25,836,923)</u>	<u>(32,170,219)</u>
Cash flows from noncapital financing activities:		
Appropriations received from Shelby County	<u>31,291,667</u>	<u>31,400,000</u>
Net cash provided by noncapital financing activities	<u>31,291,667</u>	<u>31,400,000</u>
Cash flows from capital and related financing activities:		
Repayment of capital lease obligation	(258,616)	—
Repayment of amounts payable to Shelby County	(1,110,103)	(1,020,469)
Capital expenditures	(2,370,150)	(8,952,881)
Proceeds from sale of capital assets	13,416	80,778
Interest payments	<u>(597,501)</u>	<u>(500,533)</u>
Net cash used in capital and related financing activities	<u>(4,322,954)</u>	<u>(10,393,105)</u>
Cash flows from investing activities:		
Purchases of investments	(4,520,689)	(49,569)
Proceeds from sale of investments	4,499,940	5,459,722
Distributions received from joint venture	1,500,000	18,590,000
Investment income proceeds	<u>713,400</u>	<u>1,559,770</u>
Net cash provided by investing activities	<u>2,192,651</u>	<u>25,559,923</u>
Net increase in cash and cash equivalents	3,324,441	14,396,599
Cash and cash equivalents, beginning of year	<u>35,278,399</u>	<u>20,881,800</u>
Cash and cash equivalents, end of year	<u>\$ 38,602,840</u>	<u>35,278,399</u>

SHELBY COUNTY HEALTH CARE CORPORATION

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (51,667,597)	(40,281,183)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	13,022,436	13,593,878
Changes in operating assets and liabilities:		
Patients accounts receivable, net	1,235,108	(9,773,319)
Other receivables	8,273,418	1,944,806
Other current assets	(929,579)	353,936
Other assets	6,916	—
Accounts payable	2,997,455	1,182,127
Accrued expenses and other current liabilities	(1,846,080)	925,536
Accrued professional and general liability costs	2,831,000	(596,000)
Net postemployment benefit obligation	240,000	480,000
Net cash used in operating activities	\$ <u>(25,836,923)</u>	<u>(32,170,219)</u>
Supplemental schedule of noncash investing and financing activities:		
Net decrease in the fair value of investments	\$ (457,914)	(10,627)
Equity in earnings (loss) of joint ventures	(145,000)	5,723,020
Capital lease obligation	1,850,000	—

See accompanying notes to basic financial statements.

SHELBY COUNTY HEALTH CARE CORPORATION

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Notes to Basic Financial Statements

June 30, 2009 and 2008

(1) Organization and Summary of Significant Accounting Policies

Shelby County Health Care Corporation (d/b/a The Regional Medical Center at Memphis – “The Med”) was incorporated on June 15, 1981, with the approval of the Board of County Commissioners of Shelby County, Tennessee (the County). The Med is a broad continuum healthcare provider that operates facilities owned by the County under a long-term lease. The lease arrangement effectively provided for the transfer of title associated with operating fixed assets and the long-term lease (for a nominal amount) of related real property. The lease expires in 2031.

The Med is a component unit of the County as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The Med’s component unit relationship to the County is principally due to financial accountability as defined in GASB Statement No. 14. The Med is operated by a 12-member board of directors, all of whom are appointed by the Mayor of the County and approved by the County Commission.

The Regional Medical Center Foundation (The Med Foundation) is a component unit of The Med principally due to The Med’s financial accountability for The Med Foundation as defined in GASB Statement No. 14. The Med Foundation is operated by a board of directors, all of whom are appointed by The Med’s board. The Med Foundation is a blended component unit of The Med because it provides services entirely to The Med. The Med Foundation issues separate audited financial statements, which can be obtained by writing to The Regional Medical Center Foundation, 877 Jefferson Avenue, Memphis, TN 38103 or calling 901-545-7482.

GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, requires a management’s discussion and analysis (MD&A) section providing an analysis of The Med’s overall financial position and results of operations; however, The Med has chosen to omit the MD&A from these accompanying financial statements.

The significant accounting policies used by The Med in preparing and presenting its financial statements follow:

(a) Presentation

The financial statements include the accounts of The Med. All material intercompany accounts and transactions have been eliminated.

(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to estimates and assumptions include the determination of the allowances for contractual adjustments and uncollectible accounts, reserves for professional and general liability claims, reserves for employee healthcare claims, net postretirement benefit cost and obligation, and estimated third-party payor settlements.

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In addition, laws and regulations governing the Medicare, TennCare, and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

(c) *Enterprise Fund Accounting*

The Med's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Pursuant to and as permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, The Med has elected to not apply the provisions of any otherwise relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989. The Med applies the provisions of all relevant pronouncements of the GASB and pronouncements of the FASB issued prior to November 30, 1989 that do not conflict with GASB pronouncements.

(d) *Cash Equivalents*

The Med considers investments in highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(e) *Investments and Investment Income*

Investments are carried at fair value, principally based on quoted market prices. Investment income (including realized and unrealized gains and losses) from investments is reported as nonoperating revenue.

(f) *Inventories*

Inventories, consisting principally of medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out method) or replacement market.

(g) *Investments in Joint Ventures*

Investments in joint ventures consist of The Med's equity interests in joint ventures as measured by its ownership interest if The Med has an ongoing financial interest in or ongoing financial responsibility for the joint venture. The investments are initially recorded at cost and are subsequently adjusted for additional contributions, distributions, and undistributed earnings and losses.

(h) *Capital Assets*

Capital assets are recorded at cost, if purchased, or at fair value at the date of donation. Depreciation is provided over the useful life of each class of depreciable asset using the straight-line method. Maintenance and repairs are charged to operations. Major renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the gain or loss, if any, is included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses, and changes in net assets.

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The Med capitalizes interest cost on qualified construction expenditures, net of income earned on related trusteed assets, as a component of the cost of related projects. Interest costs capitalized in 2009 and 2008 were approximately \$124,000 and \$109,000, respectively.

All capital assets other than land are depreciated using the following lives:

Land improvements	5 to 25 years
Buildings and improvements	10 to 40 years
Fixed equipment	5 to 25 years
Movable equipment	3 to 20 years
Software	3 years

(i) ***Impairment of Capital Assets***

Capital assets are reviewed for impairment when service utility has declined significantly and unexpectedly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using the method that best reflects the diminished service utility of the capital asset. No charge related to impairment matters was required during 2009 or 2008.

(j) ***Compensated Absences***

The Med's employees accumulate vacation, holiday, and sick leave at varying rates depending upon their years of continuous service and their payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation and holiday time at their regular rate of pay up to a designated maximum number of days. Since the employees' vacation and holiday time both accumulates and vests, an accrual for this liability is included in accrued expenses and other current liabilities in the accompanying balance sheets. There is a tiered accrual recognized for sick leave for employees who have completed 15 years or greater of service that is available to employees upon termination.

(k) ***Net Assets***

Net assets of The Med are classified into the following components:

- *Net assets invested in capital assets, net of related debt*, consist of capital assets net of accumulated depreciation and reduced by outstanding balances of any borrowings used to finance the purchase or construction of those assets.
- *Restricted net assets* include those net assets with limits on their use that are externally imposed (by creditors, grantors, contributors, or the laws and regulations of other governments).
- *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets, net of related debt or restricted.

When The Med has both restricted and unrestricted resources available to finance a particular program, it is The Med's policy to use restricted resources before unrestricted resources.

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The Med Foundation historically and to-date does not maintain donor-restricted endowment funds, or any Board-designated endowments. The Med Foundation's Board has interpreted Tennessee's State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. In all material respects, income from the Med Foundation's donor-restricted endowment funds is itself restricted to specific donor-directed purposes, and is therefore accounted for within restricted net assets until expended in accordance with the donor's wishes. The Med Foundation oversees individual donor-restricted endowment funds to ensure that the fair value of the original gift is preserved.

(l) *Statement of Revenues, Expenses, and Changes in Net Assets*

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services, other than financing costs, are reported as operating revenues and operating expenses. Other transactions, such as interest expense, investment income, appropriations from Shelby County, gain (loss) on disposal of capital assets, and equity in earnings of joint ventures, are reported as nonoperating revenues and expenses.

(m) *Net Patient Service Revenue*

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Changes in estimates related to prior cost reporting periods resulted in an increase in net patient service revenue of approximately \$1,750,000 and \$2,500,000 in 2009 and 2008, respectively.

(n) *Charity Care*

The Med provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because The Med does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(o) *Income Taxes*

The Med and The Med Foundation have been recognized by the Internal Revenue Service as exempt from federal income tax under Internal Revenue Code Section 501(a) as organizations described in Section 501(c)(3) and, therefore, related income is generally not subject to Federal or state income taxes.

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(p) Appropriations

The County has historically appropriated funds annually to The Med to partially offset the cost of medical care for indigent residents of the County. Appropriations from the County for 2009 and 2008 were approximately \$31.3 million and \$31.4 million, respectively. Appropriations from the County are reported as nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net assets.

(2) Deposits and Investments

The composition of cash and cash equivalents follows:

	<u>2009</u>	<u>2008</u>
Cash	\$ 6,821,710	762,086
Money market funds	31,781,130	34,516,313
	<u>\$ 38,602,840</u>	<u>35,278,399</u>

The Med's and The Med Foundation's bank balances that are considered to be exposed to custodial credit risk at June 30, 2009 and 2008 follow:

	<u>2009</u>	<u>2008</u>
Uninsured, uncollateralized, or collateralized by securities held by the pledging institution or by its trust department or agent in other than The Med's name	\$ 38,016,519	34,960,314

Investments and restricted investments include amounts held by both The Med and The Med Foundation.

The composition of investments and restricted investments follows:

	<u>2009</u>	<u>2008</u>
U.S. agencies	\$ 4,221,697	4,282,176
Certificate of deposit	100,000	100,000
Corporate bonds	1,488,957	1,060,688
Discount notes	139,986	266,927
U.S. government funds	1,009,064	1,090,393
Common stock	955,354	1,301,457
Accrued interest	33,320	33,868
	<u>\$ 7,948,378</u>	<u>8,135,509</u>

Custodial credit risk is the risk that, in the event of a bank failure, an organization's deposits may not be returned. Neither The Med nor The Med Foundation has a deposit policy for custodial credit risk.

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June 30, 2009 and 2008

At June 30, 2009, The Med and The Med Foundation had investments in debt securities with the following maturities:

	Fair value	Investment and restricted investment maturities (in years)		
		Less than 6 months	6 months to 1 year	1 – 5 years
U.S. agencies	\$ 4,221,697	343,180	96,375	3,782,142
Corporate bonds	1,488,957	100,226	102,088	1,286,643
Discount notes	139,986	139,986	—	—
	\$ 5,850,640	583,392	198,463	5,068,785

At June 30, 2008, The Med and The Med Foundation had investments in debt securities with the following maturities:

	Fair value	Investment and restricted investment maturities (in years)		
		Less than 6 months	6 months to 1 year	1 – 5 years
U.S. agencies	\$ 4,282,176	1,385,377	819,228	2,077,571
Corporate bonds	1,060,688	50,005	48,500	962,183
Discount notes	266,927	99,780	167,147	—
	\$ 5,609,791	1,535,162	1,034,875	3,039,754

At June 30, 2009, The Med Foundation had one investment totaling \$594,911 in the SEI Daily Income Trust Government Fund that represents 5% or more of total investments. At June 30, 2008, neither The Med nor The Med Foundation had an investment in any one issuer that represents 5% or greater of total investments.

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At June 30, 2009, The Med's and The Med Foundation's corporate bonds, collectively, had the following credit ratings:

	<u>Fair value</u>	<u>Credit rating</u>
\$	39,862	BB+
	154,766	BBB
	304,431	BBB+
	237,034	BBB-
	487,870	A
	204,424	A-
	60,570	AA+
	<u>1,488,957</u>	
\$	<u><u>1,488,957</u></u>	

At June 30, 2008, The Med's and The Med Foundation's corporate bonds, collectively, had the following credit ratings:

	<u>Fair value</u>	<u>Credit rating</u>
\$	288,603	BBB
	191,591	BBB+
	36,055	BBB-
	60,317	AAA
	283,347	A
	150,770	A-
	50,005	A+
	<u>1,060,688</u>	
\$	<u><u>1,060,688</u></u>	

The Med's and The Med Foundation's investments in discount notes were not rated at June 30, 2009 and 2008.

As of June 30, 2009, The Med's investment strategy, per the investment policy, for operating cash is to provide liquidity to fund ongoing operating needs and to act as a repository for both the accumulation of cash reserves needed to cushion economic down cycles and to provide cash earmarked for strategic needs.

The portfolio objectives of The Med, listed in order of importance, are as follows:

1. Preserve principal.
2. Maintain sufficient liquidity to meet forecasted cash needs.
3. Maintain a diversified portfolio in order to minimize credit risk.
4. Maximize yield subject to the above criteria.

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The authorized investments are as follows:

1. *Commercial Paper* – Any commercial paper issued by a domestic corporation with a maturity of 270 or less days that carries the highest rating by a recognized investor service, preferably Standard and Poor's and Moody's. Commercial paper shall not represent more than 50% of the portfolio.
2. *U.S. Treasury Securities* – U.S. Treasury notes, bills, and bonds with remaining maturities not to exceed one year. There is no upper limit restriction as to the maximum dollar amount or percentage of the portfolio that may be invested in U.S. Treasury securities.
3. *Bank Obligations* – Any certificate of deposit, time deposit, Eurodollar CD issued by a foreign branch of a U.S. bank, bankers' acceptance, bank note, or letter of credit issued by a (U.S.) bank possessing at least the second highest long-term debt rating from at least two recognized investor services, preferably Standard and Poor's and Moody's. Aggregate exposure to any bank may not exceed 20% of the portfolio. If aforementioned is not achieved, provision can be met by 100% collateralization by U.S. government securities.
4. *Repurchase Agreements* – Any Repurchase Agreement purchased from one of the top 25 U.S. banks or one of the primary dealers regulated by the Federal Reserve that is at least 102% collateralized by U.S. government obligations. Repurchase Agreements may not represent more than 20% of the portfolio.
5. *Funds* – Any open-end money market fund regulated by the U.S. government under Investment Company Act Rule 2a-7. Any investment fund regulated by a Registered Investment Advisor under Rule 3c-7. Such fund investment guidelines must state that "the fund will seek to maintain a \$1 per share net asset value." The Company's investment in any one fund may not exceed 10% of the assets of the fund into which it is invested.
6. *United States Government Obligations* – Any obligation issued or backed (federal agencies) by the U.S. government with a maturity of 24 months or less. No more than 25% may be invested in obligations of any one federal agency.

The Finance Committee of the Board of Directors meets regularly to review asset allocation, investment selection, portfolio performance, and overall adherence to the investment policy guidelines.

As of June 30, 2009, The Med Foundation utilized one investment manager. This manager is required to make investments in adherence to The Med Foundation's current investment policy and objectives.

In order to meet its needs, the investment strategy of The Med Foundation is to maximize total return (i.e., aggregate return from capital appreciation and dividend and interest income) while adhering to certain restrictions designed to promote a conservative portfolio.

Specifically, the primary objective of The Med Foundation investment management strategy is to maintain an investment portfolio designed to generate a high level of current income with above-average stability.

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Guidelines for investments and cash equivalents for The Med Foundation follow:

1. The Med Foundation's assets may be invested only in investment grade bonds rated Baa (or equivalent) or better as determined by Moody's Investor Service.
2. The overall market-weighted quality rating of the bond portfolio shall be no lower than A.
3. The Med Foundation's assets may be invested only in commercial paper rated P-2 (or equivalent) or better by Moody's Investor Service.
4. The market-weighted maturity of the base portfolio shall be no longer than 10 years.
5. Quality of the equity securities will be governed by the federal Employee Retirement and Income Security Act (ERISA), the Tennessee guidelines for investing trust funds, and the "prudent man rule."
6. Conservative option strategies may be used, with a goal of increasing the stability of the portfolio.

The Med Foundation limits investments in common stock to 40% of its investment portfolio. The remainder of the portfolio is to be invested in fixed income investments.

Investment income is comprised of the following:

	2009	2008
Dividend and interest income	\$ 963,435	1,710,847
Net decrease in the fair value of investments	(457,914)	(10,627)
	\$ 505,521	1,700,220

(3) Business and Credit Concentrations

The Med grants credit to patients, substantially all of whom are local area residents. The Med generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g. Medicare, Medicaid, Blue Cross, and commercial insurance policies).

The mix of receivables from patients and third-party payors follows:

	2009	2008
Commercial insurance	31%	22%
Medicaid/TennCare	29	32
Patients	29	34
Medicare	11	12
	100%	100%

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(4) Other Receivables

The composition of other receivables follows:

	2009	2008
Accounts receivable from University of Tennessee Center for Health Services	\$ 1,274,864	1,134,508
Accounts receivable from the County	1,732,948	2,299,556
Accounts receivable from state of Tennessee	5,132,957	11,955,242
Grants receivable	433,713	589,570
Insurance recovery receivable	—	300,000
Other	1,349,227	1,918,251
	\$ 9,923,709	18,197,127

(5) Other Current Assets

The composition of other current assets follows:

	2009	2008
Inventories	\$ 4,044,685	3,942,498
Prepaid expenses	1,319,500	492,108
	\$ 5,364,185	4,434,606

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(6) Capital Assets

Capital assets and related activity consist of the following:

	<u>Balances at July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balances at June 30, 2009</u>
Capital assets not being depreciated:					
Construction in progress	\$ 1,610,658	135,097		(10,724)	1,735,031
Total book value of capital assets not being depreciated	<u>1,610,658</u>	<u>135,097</u>	<u>—</u>	<u>(10,724)</u>	<u>1,735,031</u>
Capital assets being depreciated:					
Land improvements	5,961,701	17,999			5,979,700
Buildings	65,236,701				65,236,701
Fixed equipment	104,438,869	173,852		2,924	104,615,645
Movable equipment	103,185,360	3,783,081	(64,617)	5,850	106,909,674
Software	13,399,150	110,121		1,950	13,511,221
Total book value of capital assets being depreciated	<u>292,221,781</u>	<u>4,085,053</u>	<u>(64,617)</u>	<u>10,724</u>	<u>296,252,941</u>
Less accumulated depreciation for:					
Land improvements	(4,983,314)	(133,297)			(5,116,611)
Buildings	(51,871,766)	(1,006,972)			(52,878,738)
Fixed equipment	(76,050,193)	(3,977,505)			(80,027,698)
Movable equipment	(80,583,700)	(6,813,334)	64,617		(87,332,417)
Software	(10,985,383)	(1,091,328)			(12,076,711)
Total accumulated depreciation	<u>(224,474,356)</u>	<u>(13,022,436)</u>	<u>64,617</u>	<u>—</u>	<u>(237,432,175)</u>
Capital assets being depreciated, net	<u>67,747,425</u>	<u>(8,937,383)</u>	<u>—</u>	<u>10,724</u>	<u>58,820,766</u>
Capital assets, net	<u>\$ 69,358,083</u>	<u>(8,802,286)</u>	<u>—</u>	<u>—</u>	<u>60,555,797</u>

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	<u>Balances at July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balances at June 30, 2008</u>
Capital assets not being depreciated:					
Land	\$ 517,231	—	(517,231)	—	—
Construction in progress	5,106,358	3,937,968	—	(7,433,668)	1,610,658
Total book value of capital assets not being depreciated	<u>5,623,589</u>	<u>3,937,968</u>	<u>(517,231)</u>	<u>(7,433,668)</u>	<u>1,610,658</u>
Capital assets being depreciated:					
Land improvements	5,863,823	97,878	—	—	5,961,701
Buildings	65,236,701	—	—	—	65,236,701
Fixed equipment	102,576,120	975,960	(48,500)	935,289	104,438,869
Movable equipment	94,736,972	3,588,708	(77,067)	4,936,747	103,185,360
Software	11,499,959	352,367	(14,808)	1,561,632	13,399,150
Total book value of capital assets being depreciated	<u>279,913,575</u>	<u>5,014,913</u>	<u>(140,375)</u>	<u>7,433,668</u>	<u>292,221,781</u>
Less accumulated depreciation for:					
Land improvements	(4,855,508)	(127,806)	—	—	(4,983,314)
Buildings	(50,501,596)	(1,370,170)	—	—	(51,871,766)
Fixed equipment	(71,931,543)	(4,122,585)	3,935	—	(76,050,193)
Movable equipment	(73,782,480)	(6,864,723)	63,503	—	(80,583,700)
Software	(9,879,825)	(1,108,594)	3,036	—	(10,985,383)
Total accumulated depreciation	<u>(210,950,952)</u>	<u>(13,593,878)</u>	<u>70,474</u>	<u>—</u>	<u>(224,474,356)</u>
Capital assets being depreciated, net	<u>68,962,623</u>	<u>(8,578,965)</u>	<u>(69,901)</u>	<u>7,433,668</u>	<u>67,747,425</u>
Capital assets, net	<u>\$ 74,586,212</u>	<u>(4,640,997)</u>	<u>(587,132)</u>	<u>—</u>	<u>69,358,083</u>

Construction in progress at June 30, 2009 consists primarily of expenditures associated with certain renovation and construction projects. The Med has associated purchase commitments totaling approximately \$1.735 million at June 30, 2009. Related projects are scheduled for completion at various dates through June 30, 2010.

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(7) Investments in Joint Ventures

The composition of investments in joint ventures follows:

	2009	2008
Investment in Memphis Managed Care Corporation (MMCC)	\$ 2,440,000	3,940,000
Investment in Memphis Medical Center Air Ambulance Service, Inc. (MMCAAS)	4,652,667	4,797,667
	\$ 7,092,667	8,737,667

The Med is a 50% owner in MMCC, a TennCare managed care organization, with which The Med contracts to provide services to MMCC enrollees. During fiscal 2008, The Med recognized gross patient service revenue of approximately \$143.5 million for services provided to MMCC enrollees. Related gross patient accounts receivable totaled approximately \$21.7 million at June 30, 2008. MMCC is subject to certain regulatory minimum capital requirements, and in that respect, The Med has guaranteed capital deficiencies funding for MMCC up to The Med's proportionate ownership interest in MMCC. No accrual for this obligation was required at either June 30, 2009 or 2008. Equity in the earnings of MMCC recognized for fiscal 2008 was approximately \$5,340,000. During fiscal 2008 The Med and University of Tennessee Medical Group entered into a contract to sell the assets of MMCC to a publicly held managed care company and The Med received cash distributions of \$1,500,000 in fiscal 2009 and \$18,590,000 in fiscal 2008 from the liquidation of the assets of MMCC. No loss on the transaction is anticipated as the remaining assets are liquidated.

MMCAAS is a nonmember not-for-profit corporation organized to operate an air ambulance service for the transportation of medical supplies, equipment, and injured or sick persons. MMCAAS was organized by The Med and two other local healthcare systems. The Med appoints one-third of the board members of MMCAAS and is entitled to one-third of the net assets of MMCAAS in the event of dissolution.

Separate audited financial statements for MMCC and MMCAAS are available and can be obtained by writing to the management of The Med at 877 Jefferson Avenue, Memphis, TN 38103 or by calling 901-545-7482.

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(8) Accrued Expenses and Other Current Liabilities

The composition of accrued expenses and other current liabilities follows:

	<u>2009</u>	<u>2008</u>
Due to third-party payors	\$ 1,625,000	2,494,000
Compensated absences	7,034,780	8,173,304
Deferred grant revenue	5,534	10,487
Accrued payroll and withholdings	3,955,206	3,532,182
Accrued employee healthcare claims	1,762,000	2,143,000
Accrued interest	1,876,946	2,111,765
Current professional and general liability costs	2,750,000	2,750,000
	<u>\$ 19,009,466</u>	<u>21,214,738</u>

(9) Amounts Payable to the County

The County has allocated proceeds from certain prior bond issuances to assist in funding The Med's acquisition of capital assets. A summary of related amounts payable to the County follows:

	<u>2009</u>	<u>2008</u>
Installment notes payable in semiannual principal payments through August 1, 2009, plus interest of 6.5% due semiannually and at maturity	\$ 539,335	1,042,937
Installment notes payable in annual principal payments through May 1, 2013, plus interest of 5.0% to 5.6% due annually	945,095	1,145,629
Installment notes payable in annual installments of \$524,326 at 5.25% interest with final payment due December 1, 2012	1,848,488	2,254,455
	3,332,918	4,443,021
Less current maturities	1,234,598	1,110,103
	<u>\$ 2,098,320</u>	<u>3,332,918</u>

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A schedule of the changes in The Med's amounts payable to the County for 2009 and 2008 follows:

Description	Date of issuance	Balances at July 1, 2008	Additions	Payments	Balances at June 30, 2009	Due within one year
Notes payable - Shelby County	2/1/1988	\$ 1,042,937	—	(503,602)	539,335	539,335
Notes payable - Shelby County	5/1/1993	1,145,629	—	(200,534)	945,095	267,983
Notes payable - Shelby County	12/1/2002	2,254,455	—	(405,967)	1,848,488	427,280
		<u>\$ 4,443,021</u>	<u>—</u>	<u>(1,110,103)</u>	<u>3,332,918</u>	<u>1,234,598</u>

Description	Date of issuance	Balances at July 1, 2007	Additions	Payments	Balances at June 30, 2008	Due within one year
Notes payable - Shelby County	2/1/1988	\$ 1,513,296	—	(470,359)	1,042,937	503,601
Notes payable - Shelby County	5/1/1993	1,310,022	—	(164,393)	1,145,629	200,534
Notes payable - Shelby County	12/1/2002	2,640,172	—	(385,717)	2,254,455	405,968
		<u>\$ 5,463,490</u>	<u>—</u>	<u>(1,020,469)</u>	<u>4,443,021</u>	<u>1,110,103</u>

Future payments to the County as of June 30, 2009 follow:

	Principal	Interest	Total
Fiscal year:			
2010	\$ 1,234,598	681,766	1,916,364
2011	662,515	575,889	1,238,404
2012	712,996	669,942	1,382,938
2013	722,809	669,244	1,392,053
	<u>\$ 3,332,918</u>	<u>2,596,841</u>	<u>5,929,759</u>

Interest paid was approximately \$598,000 and \$501,000 in 2009 and 2008, respectively.

(10) Net Patient Service Revenue

The Med has agreements with governmental and other third-party payors that provide for reimbursement to The Med at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

- *Medicare* – Substantially all acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based on cost reimbursement or other retroactive-determination methodologies. The Med is paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by The Med and audits thereof by the Medicare fiscal intermediary.

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The Med's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Med's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through June 30, 2006. Revenue from the Medicare program accounted for approximately 19.8% and 17.6% of The Med's net patient service revenue for the years ended June 30, 2009 and 2008, respectively.

- *TennCare* – Under the TennCare program, patients traditionally covered by the State of Tennessee Medicaid program and certain members of the uninsured population enroll in managed care organizations that have contracted with the State of Tennessee to ensure healthcare coverage to their enrollees. The Med contracts with the managed care organizations to receive reimbursement for providing services to these patients. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diem rates. Revenue from the TennCare program accounted for approximately 29.7% and 30.8% of The Med's net patient service revenue for the years ended June 30, 2009 and 2008, respectively.

The Med has historically received incremental reimbursement in the form of Essential Access payments through its participation in the TennCare Program. Amounts received by The Med under this program were approximately \$36.5 million and \$38.6 million in 2009 and 2008, respectively. These amounts have been recognized as reductions in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net assets. There can be no assurance that The Med will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified. Any material reduction in such funds has a correspondingly material adverse effect on The Med's operations.

- *Arkansas Medicaid* – Substantially all inpatient and outpatient services rendered to Arkansas Medicaid program beneficiaries are paid under prospective reimbursement methodologies established by the State of Arkansas. Certain other reimbursement items (principally inpatient nursery services and medical education costs) are based upon cost reimbursement methodologies. The Med is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by The Med and audits thereof by the Arkansas Department of Health and Human Services (DHHS). The Med's Arkansas Medicaid cost reports have been audited and settled by the Arkansas DHHS through June 30, 2004. Revenue from the State of Arkansas Medicaid program accounted for approximately 1.3% and 1.2% of the Med's net patient service revenue for the years ended June 30, 2009 and 2008, respectively.

The Med has historically received incremental reimbursement in the form of Upper Payment Limit (UPL) and Disproportionate Share payments through its participation in the State of Arkansas Medicaid program. The net benefit for The Med associated with this program, totaling approximately \$23,000 for the year ended June 30, 2009, has been recognized as a reduction in related contractual adjustments in the accompanying statement of revenues, expenses, and changes in net assets. No such amounts were received by the Med from this program in fiscal 2008. There can be no assurance that The Med will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

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- *Mississippi Medicaid* – Inpatient and outpatient services rendered to Mississippi Medicaid program beneficiaries are generally paid based upon prospective reimbursement methodologies established by the State of Mississippi. Revenue from the State of Mississippi Medicaid program accounted for approximately 3.8% and 2.3%, respectively, of The Med’s net patient service revenue for years ended June 30, 2009 and 2008, respectively.

The Med has historically received incremental reimbursement in the form of Disproportionate Share and additional appropriation payments through its participation in the State of Mississippi Medicaid program. The net benefit for The Med associated with this program, totaling approximately \$3.0 million for the year ended June 30, 2008 has been recognized as a reduction in related contractual adjustments in the accompanying statement of revenues, expenses, and changes in net assets. No such amounts were received by The Med from this program in fiscal 2009.

- *Other* – The Med has also entered into other reimbursement arrangements providing for payment methodologies, which include prospectively determined rates per discharge, per diem amounts, and discounts from established charges.

The composition of net patient service revenue follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 910,654,362	914,204,620
Less provision for contractual and other adjustments	570,566,548	520,946,026
Less provision for bad debts	<u>76,442,323</u>	<u>112,492,886</u>
Net patient service revenue	<u>\$ 263,645,491</u>	<u>280,765,708</u>

The composition of incremental reimbursement from various state agencies for participation in TennCare/Medicaid programs follows:

	<u>2009</u>	<u>2008</u>
TennCare Essential Access	\$ 36,481,293	38,596,759
Arkansas UPL/Disproportionate Share	23,401	—
Mississippi Disproportionate Share	<u>—</u>	<u>3,000,000</u>
Total payments	<u>\$ 36,504,694</u>	<u>41,596,759</u>

(11) Charity Care

The Med maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone, based on established rates, were approximately \$295.3 million and \$255.8 million in 2009 and 2008, respectively. In 2008, the Med implemented processes to better identify and record its charity care, including a discount from standard charges for uninsured patients. Such discount is included in the charges forgone as The Med does not pursue collection and totaled approximately \$128.5 million and \$111.8 million in 2009 and 2008, respectively.

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(12) Retirement Plans

(a) *Defined Benefit Plan*

The Med contributes to the Shelby County Retirement System (the Retirement System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS) established by Shelby County, Tennessee. The Retirement System is administered by a board, the majority of whose members are nominated by the Shelby County Mayor, subject to approval by the Shelby County Board of Commissioners. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Shelby County Retirement System, Suite 950, 160 N. Main, Memphis, TN 38103 or calling 901-545-3570.

Shelby County provides office space and certain administrative services at no cost to the Retirement System. All other costs to administer the plan are paid from plan earnings.

Substantially all full-time and permanent part-time employees of Shelby County (including The Med and Shelby County's other component units), other than the Shelby County Board of Education employees, employees who have elected to be covered by Social Security, employees designated as Comprehensive Employment Training Act employees after July 1, 1979, and certain employees of The Med are required, as a condition of employment, to participate in the Retirement System.

The Retirement System consists of three plans (Plans A, B, and C). In 1990, Plans A and B were merged into one reporting entity, whereby total combined assets of the merged plans are available for payment of benefits to participants of either of the two previously existing plans. In 2005, Plan C was added and merged with Plans A and B for funding purposes. While the plans were merged, the Retirement System has retained the membership criteria of the previous plans, which are as follows:

- Plan C, a contributory cost-sharing multiple-employer defined benefit pension plan for employees who are also eligible for Plan A,
- Plan B, a contributory cost-sharing multiple-employer defined benefit pension plan for employees hired prior to December 1, 1978, and
- Plan A, a noncontributory cost-sharing multiple-employer defined benefit pension plan for employees hired on or after December 1, 1978, and those employees that elected to transfer to Plan A from Plan B before January 1, 1981.

The Shelby County Board of Commissioners establishes the Retirement System's benefit provisions. Once a person becomes a participant, that person will continue to participate as long as he or she is an employee of Shelby County. The Retirement System provides retirement, as well as survivor and disability defined benefits.

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The Retirement System's funding policy for employee contribution requirements is established by the Board of Administration of the Retirement System (the Board). The Shelby County Board of Commissioners establishes the Retirement System's funding policy for employer contribution requirements. For fiscal years 2009, 2008, and 2007, the employer contribution requirements were based on the actuarially determined contribution rates, which were 5.91%, 5.30%, and 4.60%, respectively.

The actuarially determined contribution rate was calculated using a projected unit credit service prorata cost method for Plan A, Plan B, and Plan C participants.

For fiscal 2009, The Med contributed \$343,155 under Plan A, \$283 under Plan B, and \$53,188 under Plan C. Employees contributed \$167 under Plan B and \$83,842 under Plan C. For fiscal 2008, The Med contributed \$359,789 under Plan A, \$6,369 under Plan B, and \$41,978 under Plan C. Employees contributed \$3,916 under Plan B and \$83,956 under Plan C. For fiscal 2007, The Med contributed \$367,570 under Plan A, \$12,915 under Plan B, and \$42,359 under Plan C. Employees contributed \$7,947 under Plan B and \$84,718 under Plan C. The contributions as a percentage of earned compensation were the same as those for the Retirement System. The Med contributed 100% of its required contributions in 2009, 2008, and 2007.

(b) *Defined Contribution Plan*

Effective July 1, 1985, The Med established, under the authority of its Board of Directors, The Regional Medical Center at Memphis Retirement Investment Plan, a defined contribution pension plan covering employees 21 years of age and older who have completed one year of service, as defined, and are not participating in any other pension program to which The Med makes contributions. The plan provides for employee contributions of between 2% and 6% of compensation and for equal matching contributions made by The Med. Participants are immediately vested in their contributions plus actual earnings thereon. Participants vest 75% in the employer's matching contributions after four years of service and 100% after five years. Forfeitures are returned to The Med to reduce future matching contributions. The Med contributed approximately \$3.6 million and \$3.8 million to the plan for years ended June 30, 2009 and 2008, respectively. Plan participants contributed approximately \$4.1 million and \$4.3 million to the plan for years ended June 30, 2009 and 2008, respectively.

(13) *Postretirement Benefit Plan*

Regional Medical Center Healthcare Benefit Plan (the Plan) is a single-employer defined benefit healthcare plan sponsored and administered by The Med. The Plan provides medical and life insurance benefits to eligible retirees and their spouses. The Med's Board of Directors is authorized to establish and amend all provisions. The Med does not issue a publicly available financial report that includes financial statements and required supplementary information for the Plan.

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(a) Funding Policy

The contribution requirements of employees and the Plan are established and may be amended by The Med's Board of Directors. Monthly contributions are required by retirees who are eligible for coverage. The Med pays for costs in excess of required retiree contributions. These contributions are assumed to increase based on future medical plan cost increases. For fiscal 2009 and 2008, The Med contributed approximately \$1,591,000 and \$1,555,000, respectively, net of retiree contributions, to the Plan. Plan members receiving benefits contributed approximately \$501,000 in fiscal 2009 and \$470,000 in fiscal 2008 through their required contributions. The following table summarizes the monthly contribution rates for calendar year 2008:

	Single	Family
Blue Cross Blue Shield PPO	\$ 122.00	266.00
Cigna OAP – Pre-Medicare	90.00	240.00
Cigna OAP – Post-Medicare	22.37	129.77

(b) Annual OPEB Cost and Net OPEB Obligation

The Med's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table shows the components of The Med's annual OPEB cost for fiscal 2009 and 2008, the amounts actually contributed to the Plan, and changes in The Med's net OPEB obligation:

	2009	2008
Annual required contributions and annual OPEB cost	\$ 1,831,095	2,034,704
Contributions made	1,591,095	1,554,704
Increase in net OPEB obligation	240,000	480,000
Net OPEB obligation, beginning of year	480,000	—
Net OPEB obligation, end of year	\$ 720,000	480,000

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(c) *Three-Year Trend Information*

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
6/30/09	\$ 1,831,095	87%	\$ 720,000
6/30/08	2,034,704	77%	480,000
6/30/07	N/A	N/A	N/A

(d) *Funded Status and Funding Progress – Required Supplementary Information*

As of July 1, 2008, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$25,656,247 resulting in an unfunded actuarial accrued liability (UAAL) of \$25,656,247.

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

(e) *Schedule of Funding Progress – Required Supplementary Information*

Analysis of the Plan's funding status follows:

Actuarial valuation date	Actuarial value of plan assets	Actuarial accrued liability (AAL)	Plan assets less than AAL	Funded ratio	Covered payroll	Plan assets less than AAL as of a % of covered payroll
7/1/2008	\$ —	25,656,247	25,656,247	0.0%	\$ 73,447,453	34.9%
7/1/2007	—	31,744,154	31,744,154	0.0%	88,236,389	36.0%
7/1/2006	N/A	N/A	N/A	N/A	N/A	N/A

(f) *Actuarial Methods and Assumptions*

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

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In the July 1, 2008 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 4% investment rate of return, which is a long-term rate of return on general account assets, and an annual inflation rate and annual healthcare cost trend rate of 9.0% in 2007, reducing each year until it reaches an annual rate of 4.5% in 2028. The UAAL is being amortized, using a level percent of pay method, over a 30-year period under the Projected Unit Credit Method.

(14) Transactions with University of Tennessee Center for Health Services

The Med contracts with University of Tennessee Center for Health Services (UTCHS) and University of Tennessee Medical Group (UTMG) to provide, among other things, The Med's house staff, professional supervision of certain ancillary departments and professional care for indigent patients. The Med also provides its facilities as a teaching hospital for UTCHS.

Operating expenses include approximately \$41.3 million in 2009 and \$39.4 million in 2008 for all professional and other services provided by UTCHS/UTMG.

(15) Risk Management

The Med has a self-insurance program for professional and general liability risks, both with respect to claims incurred after the effective date of the program and claims incurred but not reported prior to that date. The Med has not acquired any excess coverage for its self-insurance because The Med is afforded sovereign immunity in accordance with applicable statutes. Presently, sovereign immunity limits losses to \$300,000 per claim. The Med has recorded an accrual for self-insurance losses totaling approximately \$12.9 million and \$10.1 million at June 30, 2009 and 2008, respectively.

Incurred losses identified through The Med's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate The Med's current inventory of reported claims and historical experience, as well as considerations such as the nature of each claim or incident, relevant trend factors, and advice from consulting actuaries.

The following is a summary of changes in The Med's self-insurance liability for professional and general liability costs for fiscal 2009 and 2008:

	2009	2008
Balance at July 1	\$ 10,049,000	10,424,000
Provision for claims reported and claims incurred but not reported	5,679,000	2,862,000
Claims paid	(2,848,000)	(3,237,000)
	12,880,000	10,049,000
Amounts classified as current liabilities	(2,750,000)	(2,750,000)
Balance at June 30	\$ 10,130,000	7,299,000

SHELBY COUNTY HEALTH CARE CORPORATION
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June 30, 2009 and 2008

Like many other businesses, The Med is exposed to various risks of loss related to theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Claims settled through June 30, 2009 have not exceeded this commercial coverage in any of the three preceding years.

The following is a summary of changes in The Med's self-insurance liability for employee health coverage (included in accrued expenses and other current liabilities in the accompanying balance sheets) for fiscal 2009 and 2008:

	2009	2008
Balance at July 1	\$ 2,143,000	1,930,000
Claims reported and claims incurred but not reported	9,984,963	11,748,636
Claims paid	(10,365,963)	(11,535,636)
Balance at June 30	\$ 1,762,000	2,143,000

(16) Commitments

The Med has outstanding service contracts for management services, equipment maintenance, and blood supply services. Estimated future payments under the contracts follow:

2010	\$ 4,104,833
2011	3,851,977
2012	2,757,802
2013	52,000
	\$ 10,766,612

Expense under these contracts and other contracts with variable payment terms was approximately \$11.6 million and \$10.6 million for the years ended June 30, 2009 and 2008, respectively.

(17) Leases

The Med has a capital lease with a vendor for clinical equipment with an original cost of \$1,850,000 at June 30, 2009. Related accumulated amortization on the clinical equipment was \$186,800 at June 30, 2009. The Med's scheduled payments on the capital lease obligation as of June 30, 2009 follow:

	Principal	Interest	Total
2010	\$ 354,822	46,752	401,574
2011	366,601	34,973	401,574
2012	378,770	22,804	401,574
2013	391,343	10,231	401,574
2014	99,848	546	100,394
	\$ 1,591,384	115,306	1,706,690

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A schedule of changes in The Med's capital lease obligation follows:

<u>Description</u>	<u>Date of lease</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2009</u>	<u>Due within one year</u>
Omnicell, Inc.	10/1/2008	\$ —	1,850,000	(258,616)	1,591,384	354,822

The Med has entered into noncancelable operating leases for certain buildings and equipment. Rental expense for all operating leases was approximately \$6.1 million and \$6.5 million for the years ended June 30, 2009 and 2008, respectively. The future minimum payments under noncancelable operating leases as of June 30, 2009 follow:

2010	\$ 926,774
2011	317,268
2012	94,260
2013	94,260
	<u>1,432,562</u>
	\$ <u>1,432,562</u>