

Annual Financial Report

Blount Memorial  
Hospital, Inc.

*Years ended June 30, 2013 and 2012  
with Report of Independent Auditors*

Blount Memorial Hospital, Inc.

Annual Financial Report

Years ended June 30, 2013 and 2012

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## Report of Independent Auditors

To the Board of Directors  
Blount Memorial Hospital, Inc.

We have audited the accompanying financial statements of Blount Memorial Hospital, Inc. (the "Hospital"), a component unit of the County of Blount, Tennessee, as of and for the year ended June 30, 2013 and 2012, and the related notes to the 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.

### **Auditor's 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 of 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 auditor's 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 entity'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 entity'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 opinion.

To the Board of Directors  
Blount Memorial Hospital, Inc.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Blount Memorial Hospital, Inc. as of June 30, 2013 and 2012, and the changes in its net position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

The List of Officials on page 27, which is of a non-accounting nature, has not been subjected to the auditing procedures applied in the audit of the 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 17, 2013 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions, laws, regulations, contracts 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* in considering the Hospital's internal control over financial reporting and compliance.

*Coulter & Justus, P.C.*

September 17, 2013

Blount Memorial Hospital, Inc.  
Management's Discussion and Analysis

This section of Blount Memorial Hospital, Inc.'s annual financial report presents management's discussion and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2013 and 2012. The information contained herein should be considered in conjunction with the Hospital's accompanying financial statements. Unless otherwise indicated, amounts are in thousands.

**Overview of the Financial Statements**

The Hospital is a component unit of Blount County, Tennessee, and the accompanying financial statements reflect the Hospital's net position and activities. These financial statements consist of statements of net position, statements of revenues, expenses and changes in net position and statements of cash flows. The accompanying notes to the financial statements are an integral part of the financial statements and are essential to understanding the data contained in the financial statements.

The statements of net position provide descriptions of the Hospital's assets and liabilities and an indication of the Hospital's financial position. The statements of revenue, expenses and changes in net position report the revenues and expenses related to the Hospital's activities. The statements of cash flows report the cash provided and used by operating, investing, capital, financing and other activities.

**Financial Highlights**

Condensed financial information as of and for the years ended June 30, 2013, 2012 and 2011 is provided in the tables below.

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Assets:			
Current assets	<b>\$ 37,904</b>	\$ 28,186	\$ 28,901
Assets limited as to use	<b>108,244</b>	156,989	160,478
Property and equipment, net	<b>126,387</b>	100,858	102,605
Other	<b>9,811</b>	5,828	5,967
Total assets	<b><u>\$282,346</u></b>	<u>\$291,861</u>	<u>\$297,951</u>
Deferred outflows of resources--accumulated decrease in fair value of interest rate swaps	<b><u>\$ 9,994</u></b>	<u>\$ 15,845</u>	<u>\$ 7,497</u>
Liabilities:			
Current liabilities	<b>\$ 23,862</b>	\$ 21,581	\$ 21,501
Bonds payable, net of unamortized loss on refunding	<b>91,646</b>	95,702	99,537
Interest rate swap liabilities	<b>9,994</b>	15,845	7,497
Total liabilities	<b><u>\$125,502</u></b>	<u>\$133,128</u>	<u>\$128,535</u>
Net position:			
Net investment in capital assets	<b>\$ 33,137</b>	\$ 6,519	\$ 4,517
Restricted	<b>936</b>	860	861
Unrestricted	<b>132,765</b>	167,199	171,535
Total net position	<b><u>\$166,838</u></b>	<u>\$174,578</u>	<u>\$176,913</u>

Blount Memorial Hospital, Inc.  
Management's Discussion and Analysis (continued)

**Financial Highlights (continued)**

	<b>2013</b>	<b>2012</b>	<b>2011</b>
Changes in net position:			
Operating revenues	<b>\$206,859</b>	\$182,670	\$183,461
Operating expenses	<b>214,433</b>	188,029	190,379
Operating loss	<b>(7,574)</b>	(5,359)	(6,918)
Nonoperating (loss) income	<b>(166)</b>	3,024	13,091
Excess of (expenses over revenues) revenues over expenses	<b>\$ (7,740)</b>	\$ (2,335)	\$ 6,173

*Current Assets*

Current assets have increased 34.4% from 2012 to 2013 primarily related to assets obtained during the acquisition of East Tennessee Medical Group (ETMG), discussed later and in Note 9 to the financial statements and accounts receivable. Accounts receivable have increased due to addition of ETMG revenues, the implementation of certified electronic health records software and staffing turnover in billing and collections.

*Assets Limited as To Use*

The Hospital utilized a portion of its assets limited as to use to acquire ETMG and in purchasing software and equipment.

*Net Position*

Overall, the Hospital's net position decreased in 2013 due to the decrease in the assets limited as to use. The Hospital's net position decreased in 2012 from 2011 due to the change in the fair value of investments. The changes in fair value also resulted in the corresponding changes in assets limited as to use in 2013 and 2012.

Property and equipment additions as well as debt repayments increased the amounts classified as net investment in capital assets at June 30, 2013 and 2012.

The statements of cash flows and Notes 6 and 8 to the financial statements provide additional information regarding capital additions, bonds and related cash flows.

Blount Memorial Hospital, Inc.  
Management's Discussion and Analysis (continued)

**Financial Highlights (continued)**

*Results of Operations*

Operating revenues and expenses are as follows for the years ended June 30, 2013, 2012 and 2011.

	2013	Relative %	2012	Relative %	2011	Relative %
Net patient service revenue	\$175,214	85%	\$167,086	91%	\$169,452	92%
Other revenue	31,645	15%	15,584	9%	14,009	8%
Total operating revenues	<b>\$206,859</b>	<b>100%</b>	\$182,670	100%	\$183,461	100%
Salaries and wages	\$ 99,360	46%	\$ 84,661	45%	\$ 84,075	44%
Employee benefits	27,364	13%	23,673	13%	24,401	13%
Contract salaries	2,558	1%	1,207	1%	1,459	1%
Professional fees	4,352	2%	3,645	2%	5,817	3%
Patient supplies	32,046	15%	28,925	15%	28,795	15%
Purchased maintenance	7,862	4%	7,729	4%	7,174	4%
Outside services	6,607	3%	5,945	3%	5,520	3%
Equipment rental	2,809	2%	2,879	2%	2,758	1%
Utilities	4,476	2%	4,463	2%	4,427	2%
Marketing	833	0%	640	0%	638	0%
Depreciation and amortization	13,289	6%	11,236	6%	12,459	7%
Interest	3,705	2%	3,762	2%	3,655	2%
Other expenses	9,172	4%	9,263	5%	9,201	5%
Total operating expenses	<b>\$214,433</b>	<b>100%</b>	\$188,028	100%	\$190,379	100%

Changes in patient volumes have resulted in an increase in net patient service revenue of 4.8% from 2012 to 2013, and a decrease of 1.4% from 2011 to 2012. Hospital fees and rates have increased each year but a significant portion of the price increases are not reimbursed by the Hospital's largest third party payors such as Medicare and TennCare.

Total operating revenues and expenses have increased 13.2% and 14.0%, respectively, from 2012 to 2013 due to the acquisition of ETMG. Total operating revenues and expenses decreased 0.4% and 1.2%, respectively, from 2011 to 2012.

Interest costs in 2013 are comparable to 2012 and 2011 as a result of overall market conditions with variable interest rates.

*Other Changes in Net Position*

The Hospital experienced a net investment loss of \$633 in 2013 and net investment income of \$1,987 in 2012. Net investment loss includes an increase in interest and dividends offset by changes in fair value of investments. The changes in fair value of investments in both years were due to the changes in the market.

## Blount Memorial Hospital, Inc.

### Management's Discussion and Analysis (continued)

#### **Capital Acquisitions and Construction Activities**

Effective October 1, 2012, the Hospital acquired ETMG through an asset purchase agreement. Note 9 to the financial statements contains details regarding the acquisition.

Note 6 to the financial statements summarizes property and equipment by class and changes for the years ended June 30, 2013 and 2012. Additional information regarding accounting policies for capital assets is provided in Note 1 to the financial statements.

Total additions to property and equipment were \$37,839 in 2013 and \$9,351 in 2012. Additions in 2013 and 2012 include the acquisition ETMG and its real estate, software and equipment related to implementation of certified electronic health records software to promote meaningful use of health information technology. Note 3 discusses the Hospital's meaningful use initiatives in more detail. Construction in progress at June 30, 2013 consists primarily of software and facility upgrades.

#### **Long-Term Debt Activity**

Principal payments on the 1998 bond issues were \$2,385 and \$2,270 for 2013 and 2012, respectively. The balances outstanding at June 30, 2013 and 2012 were \$7,500 and \$9,885, respectively. During 2013, 1998A bonds matured with the final payment of \$1,515. The outstanding 1998 bonds bear interest at fixed rates ranging from 5.10% to 5.15%.

The Series E-5-A bonds bear interest at a variable rate. Bonds totaling \$25,000 are subject to an interest rate swap agreement which fixes the rate at 4.9%. An additional portion of the bonds totaling \$30,700 are subject to an interest rate swap agreement which fixes the rate at 4.33%. The balance outstanding at June 30, 2013 and 2012 was \$89,125 and \$90,705, respectively. Principal payments totaled \$1,580 on the series E-5-A bonds during 2013 and \$1,505 in 2012.

The terms of the bond issues are included in Note 8 to the financial statements.

#### **Requests for Information**

The annual financial report is designed to provide an overview of the Hospital's financial position and activity. Questions concerning the information provided herein or requests for additional information should be directed to the Assistant Administrator/Chief Financial Officer of Blount Memorial Hospital, Inc.

Respectfully submitted,



Jonathan Smith  
Assistant Administrator/Chief Financial Officer  
Blount Memorial Hospital, Inc.

Blount Memorial Hospital, Inc.

Statements of Net Position

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,904,456	\$ 4,480,033
Patient accounts receivable, less allowances for uncollectible accounts of \$8,452,602 in 2013 and \$5,300,614 in 2012	26,715,271	15,739,211
Inventories	3,676,546	2,859,139
Prepaid expenses	2,500,453	2,473,137
Funds held by trustee restricted to payment of current liabilities	1,107,282	2,633,977
Total current assets	<b>37,904,008</b>	28,185,497
Assets limited as to use:		
By Board	105,041,763	152,332,133
Foundation	1,381,029	1,298,394
Other investments--held by trustee	225,943	464,536
Under bond agreements--held by trustee	2,702,509	5,528,180
Less funds held by trustee restricted to payment of current liabilities	(1,107,282)	(2,633,977)
	<b>108,243,962</b>	156,989,266
Property and equipment, net	126,387,075	100,858,134
Deferred debt expense	672,268	723,166
Other assets	9,138,810	5,104,480
Total assets	<b>282,346,123</b>	291,860,543
<b>Deferred outflows of resources</b>		
Accumulated decrease in fair value of interest rate swaps	9,994,413	15,845,194
Total assets and deferred outflows of resources	<b>\$ 292,340,536</b>	<b>\$ 307,705,737</b>

Blount Memorial Hospital, Inc.  
Statements of Net Position (continued)

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Liabilities and net position</b>		
Current liabilities:		
Accounts payable	\$ 4,893,887	\$ 3,470,321
Accrued compensation, benefits and withholdings	10,630,842	9,435,623
Other accrued expenses	2,987,210	3,224,228
Estimated third party payor settlements	850,003	1,046,649
Accrued interest payable	385,080	438,871
Current portion of bonds payable	4,115,000	3,965,000
Total current liabilities	23,862,022	21,580,692
Bonds payable, net of unamortized loss on refunding	91,646,014	95,701,725
Interest rate swap liabilities	9,994,413	15,845,194
Total liabilities	125,502,449	133,127,611
Net position:		
Net investment in capital assets	33,136,852	6,519,479
Restricted	935,838	859,773
Unrestricted	132,765,397	167,198,874
Total net position	166,838,087	174,578,126
Total liabilities and net position	\$ 292,340,536	\$ 307,705,737

*See accompanying Notes to Financial Statements.*

Blount Memorial Hospital, Inc.

Statements of Revenues, Expenses and Changes in Net Position

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Operative revenues:		
Net patient service revenue	\$ 175,213,390	\$ 167,085,932
Other revenue	<b>31,645,236</b>	15,583,759
Total operating revenues	<b>206,858,626</b>	182,669,691
Operating expenses:		
Salaries and wages	<b>99,359,496</b>	84,662,302
Employee benefits	<b>27,364,192</b>	23,673,204
Contract salaries	<b>2,558,218</b>	1,206,629
Professional fees	<b>4,352,246</b>	3,645,531
Patient supplies	<b>32,045,776</b>	28,925,189
Purchased maintenance	<b>7,861,802</b>	7,728,669
Outside services	<b>6,606,794</b>	5,944,611
Equipment rental	<b>2,808,918</b>	2,878,719
Utilities	<b>4,475,810</b>	4,462,899
Marketing	<b>832,967</b>	640,082
Depreciation and amortization	<b>13,288,931</b>	11,235,807
Interest	<b>3,705,090</b>	3,762,252
Other expenses	<b>9,172,253</b>	9,262,903
Total operating expenses	<b>214,432,493</b>	188,028,797
Operating loss	<b>(7,573,867)</b>	(5,359,106)
Nonoperating (loss) revenues:		
Investment (loss) income	<b>(662,568)</b>	1,986,978
Contributions and other	<b>496,396</b>	1,036,897
Total nonoperating (loss) income	<b>(166,172)</b>	3,023,875
Excess of expenses over revenue	<b>(7,740,039)</b>	(2,335,231)
Net position at beginning of year	<b>174,578,126</b>	176,913,357
Net position at end of year	<b>\$ 166,838,087</b>	<b>\$ 174,578,126</b>

*See accompanying Notes to Financial Statements.*

Blount Memorial Hospital, Inc.

Statements of Cash Flows

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities</b>		
Receipts from and on behalf of patients	\$ 195,685,920	\$ 183,321,565
Payments to employees for services	(98,164,277)	(85,154,829)
Payments to suppliers and contractors	(97,975,621)	(87,396,307)
Net cash (used in) provided by operating activities	<u>(453,978)</u>	10,770,429
<b>Cash flows from noncapital financing activities</b>		
Contributions and other	496,396	1,036,897
<b>Cash flows from capital and related financing activities</b>		
Additions to property and equipment	(17,871,654)	(9,984,920)
Repayments of long-term debt	(3,965,000)	(3,775,000)
Interest paid on long-term debt	(3,758,881)	(3,662,021)
Net cash used in capital and related financing activities	<u>(25,595,535)</u>	(17,421,941)
<b>Cash flows from investing activities</b>		
Interest and dividends	7,535,487	4,857,988
Acquisition of medical group assets	(24,631,891)	-
Net proceeds from sale of investment securities		
designated as assets limited as to use	39,748,277	249,746
Net cash provided by investing activities	<u>22,651,873</u>	5,107,734
Net decrease in cash and cash equivalents	(2,901,244)	(506,881)
Cash and cash equivalents at beginning of year	10,482,298	10,989,179
Cash and cash equivalents at end of year	<u>\$ 7,581,054</u>	<u>\$ 10,482,298</u>
<b>Reconciliation of cash and cash equivalents to the statements of net position</b>		
Cash and cash equivalents in current assets	\$ 3,904,456	\$ 4,480,033
Cash and cash equivalents included in assets limited as to use	3,676,598	6,002,265
Total cash and cash equivalents	<u>\$ 7,581,054</u>	<u>\$ 10,482,298</u>

Blount Memorial Hospital, Inc.  
Statements of Cash Flows (continued)

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Reconciliation of operating loss to net cash (used in) provided by operating activities</b>		
Operating loss	\$ (7,573,867)	\$ (5,359,106)
Adjustments to reconcile to net cash flows (used in) provided by operating activities:		
Depreciation and amortization	13,288,931	11,235,807
Amortization of loss of bond refunding	59,289	130,368
Interest payments	3,758,881	3,662,021
Changes in operating assets and liabilities:		
Net patient accounts receivable	(10,976,060)	724,366
Inventories and prepaid expenses	(130,132)	(147,103)
Accounts payable, other accrued expenses and accrued interest	120,407	176,913
Accrued compensation, benefits and withholdings	1,195,219	419,655
Estimated third party payor settlements	(196,646)	(72,492)
Net cash (used in) provided by operating activities	\$ (453,978)	\$ 10,770,429

**Noncash investing, capital and financing activities**

At June 30, 2013 and 2012, accounts payable and accrued expenses include \$1,204,955 and \$192,605 respectively, for property and other capital additions.

Investment income includes decreases of \$8,198,055 in 2013, and \$2,871,010 in 2012, to reflect the net change in fair value of investments during each year.

*See accompanying Notes to Financial Statements.*

# Blount Memorial Hospital, Inc.

## Notes to Financial Statements

June 30, 2013

### **1. Description of Reporting Entity and Significant Accounting Policies**

#### **Reporting Entity**

Blount Memorial Hospital, Inc. (the “Hospital”) is an acute and general healthcare provider formed to provide services to Blount County and the surrounding communities. The Hospital is a component unit of the County of Blount, Tennessee (the “County”), which issues debt on the Hospital’s behalf (*Note 8*). The Hospital’s board members are appointed by the County Commission of Blount County, the Board of Commissioners of the City of Alcoa, the Board of Commissioners of the City of Maryville and by the Board of Directors of Maryville College.

The Hospital uses enterprise fund accounting and is included as a discretely presented component unit in the financial statements of the County.

The Hospital is the sole corporate member of the Blount Memorial Foundation (the “Foundation”), which coordinates and secures resources to enable the Hospital to maintain, improve and advance medical care. The Hospital and the Foundation have common boards of directors and the financial activity of the Foundation is included (blended) in the Hospital’s financial statements (*Note 9*).

Blount Memorial Physicians Group, Inc. (“BMPG”) is owned 100% by the Hospital and governed by the Hospital’s board of directors. The financial activity of BMPG is also included (blended) in the Hospital’s financial statements (*Note 9*).

The Hospital has non-controlling ownership interests in partnerships which operate medical facilities in Blount County consistent with the Hospital’s mission of providing healthcare services. Ownership investments are included in other assets at June 30, 2013 and 2012 (*Note 7*).

All significant intercompany accounts and transactions with blended component units have been eliminated.

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**1. Description of Reporting Entity and Significant Accounting Policies (continued)**

**Basis of Presentation**

The Hospital's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with Governmental Accounting Standards Board ("GASB"), which establishes standards for external financial reporting for all state and local governmental entities. GASB requires the classification of net position into three components which are defined as follows:

Net investment in capital assets - This component of net position consists of property and equipment, net of accumulated depreciation, and unamortized debt expense reduced by the outstanding balances of bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent proceeds is not included in the calculation of the net investment in capital assets. Rather, that portion of the debt or deferred inflow of resources is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted - This component of net position consists of the net amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or restricted components of net position.

**Cash and Cash Equivalents**

The Hospital considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**Patient Accounts Receivable**

Accounts receivable from patients and third-party payors (*Note 4*) are recorded on the accrual basis in the period in which services are rendered. The Hospital does not require collateral on accounts receivable. Accounts are charged to bad debt expense as they are determined to be uncollectible based on a review of aging and collections. The Hospital establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific patients, historical trends and other information.

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**1. Description of Reporting Entity and Significant Accounting Policies (continued)**

**Inventories**

Inventories are stated at the lower of cost or market and are valued principally by methods which approximate the first-in, first-out method.

**Investments**

Investments are recorded at fair value based on quoted market prices. Interest and dividends on investments, as well as realized and unrealized gains and losses, are included in non-operating income when earned.

The Hospital is organized as a private act hospital authority, which provides the Hospital additional rights and powers including the manner in which funds are invested. The Hospital diversifies its investments into a broad range of asset classes in order to reduce concentration risk and to maximize return with reasonable and prudent levels of risk. It is also the Hospital's policy to limit the maximum position for each type of investment at varying levels within these classifications. As of June 30, 2013, the Hospital's fixed income investments all have quality ratings of A or better (by both Standard & Poor's and Moody's Investors Service).

To limit its exposure to fair value losses arising from changing interest rates, the Hospital's investment policy restricts the type and maturities of fixed income investments in order to increase the overall investment horizon. The current duration of the Hospital's fixed income investments ranges up to approximately 8 years with an average duration of 4.1 years, based on timing of interest payments, maturity dates, and expectations of minimal interest rate changes.

**Assets Limited as to Use by Board and Foundation**

Certain investments have been designated by the Board of Directors for the replacement of property and equipment or for other purposes. Cash and investments held by the Foundation in trust accounts are also classified as assets limited as to use (*Note 9*).

**Property and Equipment**

Land, buildings and equipment are stated on the basis of cost or fair value at date of donation. Although title to certain land and buildings rests with the County, these assets have been recorded by the Hospital as the County has authorized their use by the Hospital. Repairs and maintenance costs are expensed as incurred while significant asset purchases and improvements are capitalized. Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives of the assets. The estimated useful lives are based on guidelines established for the healthcare industry, which are summarized as follows:

Land improvements	8 to 25 years
Buildings, improvements and fixed equipment	10 to 30 years
Equipment	3 to 15 years

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**1. Description of Reporting Entity and Significant Accounting Policies (continued)**

**Deferred Debt Expense**

Deferred debt expense represents costs related to issuance of bonds and are being amortized by the straight-line method over the life of the related bond obligations (\$50,898 for 2013 and \$88,751 for 2012).

**Accrual for Compensated Absences**

The Hospital recognizes an expense and accrues a liability for compensated future employee absences in the period in which employees' rights to such compensated absences are earned.

**Operating Revenues and Expenses**

Revenue and expenses associated with the Hospital's mission of providing healthcare services are considered to be operating activities. Non-operating revenues consist primarily of investment income (loss) and general contributions to the Hospital.

**Income Taxes**

The Hospital is classified as a governmental organization exempt from income tax. The Foundation is a not-for-profit organization defined by Section 501(c)(3) of the Internal Revenue Code as other than a private foundation. Accordingly, no provision for income taxes has been included in the accompanying financial statements. BMPG is a corporation and subject to income taxes. BMPG has net operating loss carryforwards, resulting in deferred tax assets, which have been fully offset by a valuation allowance.

**Charity Care**

The Hospital accepts patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Charges at established rates related to charity care are not included in net patient service revenue.

**Patient Service Revenue**

Patient service revenue is reported in the period in which services are provided, at rates which reflect the amount expected to be collected. Net patient service revenue includes amounts estimated by management to be reimbursable by third party payors under provisions of reimbursement formulas in effect and is net of the provision for bad debts.

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**1. Description of Reporting Entity and Significant Accounting Policies (continued)**

**Risk Management**

The Hospital is self-insured for medical malpractice and employee (including dependent) group health expenses and claims (*Note 5*). Commercial insurance is purchased for significant exposure to various other risks typical to the Hospital's operating environment and industry such as loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. There were no significant losses in excess of insurance coverage during the last three years.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of: assets and liabilities; net position; disclosures of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Cash, Cash Equivalents and Assets Limited as to Use**

The Hospital's cash and cash equivalent balances are on hand with financial institutions participating in the Bank Collateral Pool, which is administered by the Collateral Pool Board and monitored by the Treasury Department of the State of Tennessee.

The assets limited as to use by Board and those held by trustees include U.S. Government instruments and other securities held at financial institutions in the Hospital's name (uninsured credit risk category) and are categorized by investment type as follows as of June 30:

	2013	%	2012	%
U.S. Treasury Portfolio (cash equivalents)	\$ 3,396,776	3%	\$ 5,725,709	4%
U.S. Government Agency Securities	9,309,240	9%	12,934,081	8%
Municipal bonds	4,894,340	4%	6,633,375	4%
Corporate bonds	15,239,725	14%	23,743,796	15%
Bond mutual funds	46,421,930	43%	72,205,133	46%
Equity mutual funds	28,708,204	27%	37,082,755	23%
	<u>\$107,970,215</u>	<u>100%</u>	<u>\$158,324,849</u>	<u>100%</u>

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**2. Cash, Cash Equivalents and Assets Limited as to Use (continued)**

Net investment income (loss) on assets limited as to use includes as of June 30:

	<u>2013</u>	<u>2012</u>
Interest and dividends	<b>\$7,535,487</b>	\$4,857,988
Net realized and unrealized investment loss	<b>(8,198,055)</b>	(2,871,010)
	<u><b>\$(662,568)</b></u>	<u>\$1,986,978</u>

The Foundation's cash balances at financial institutions are covered by Federal Deposit Insurance Corporation insurance (risk category insured) subject to certain limits. Foundation assets limited as to use are comprised of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Cash	<b>\$ 45,767</b>	\$ 63,515
U.S. Treasury Portfolio (cash equivalents)	<b>234,055</b>	213,041
Bond mutual funds	<b>461,314</b>	452,883
Equity mutual funds	<b>639,893</b>	568,955
	<u><b>\$1,381,029</b></u>	<u>\$1,298,394</u>

BMPG's cash balances at financial institutions are covered by Federal Deposit Insurance Corporation insurance (risk category insured) subject to certain limits.

**3. Net Patient Service Revenue**

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the Statements of Revenues, Expenses and Changes in Net Position is as follows for the year ended June 30:

	<u>2013</u>	<u>2012</u>
Gross patient service charges	<b>\$ 701,918,021</b>	\$ 622,573,918
Contractual adjustments and discounts	<b>(474,980,352)</b>	(412,761,549)
Charity care charges foregone	<b>(40,977,634)</b>	(34,740,234)
Provision for bad debts	<b>(10,746,645)</b>	(7,986,203)
Net patient service revenue	<u><b>\$ 175,213,390</b></u>	<u>\$ 167,085,932</u>

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**3. Net Patient Service Revenue (continued)**

The Health Information Technology for Economic and Clinical Health Act (HITECH) was enacted as part of the American Recovery and Reinvestment Act of 2009. Under HITECH, the Hospital must implement a certified electronic health record in an effort to promote the adoption and meaningful use of health information technology. During 2013 and 2012, the Hospital has recorded approximately \$2,361,466 and \$572,884, respectively, of incentive payments under Medicare and TennCare programs related to meeting meaningful use objectives mandated by HITECH. These incentive payments are included as a component of net patient service revenue.

**4. Third Party Payor Agreements**

The Hospital renders services to patients under contractual arrangements with the Medicare and TennCare programs. Laws, regulations and contracts governing third party payor programs can be extremely complex and subject to interpretation. Amounts earned under these contractual arrangements are subject to regulatory review and final determination by the various program intermediaries and other appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made in the financial statements for any adjustments which may result from such reviews.

The Medicare program pays for inpatient services on a prospective basis primarily based upon diagnostic related group assignments as determined by the patient's clinical diagnosis and medical procedures utilized. The Hospital receives additional payments from Medicare based on the provision of services to a disproportionate share of low income patients (as defined by the Medicare program). Medicare also pays for outpatient services on a prospective basis based upon ambulatory payment classifications and fee schedules. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts.

Contractual adjustments for Medicare, TennCare and other third party discount arrangements are recognized when the related revenues are reported in the financial statements. The percentage of gross patient charges from the Medicare and TennCare programs was approximately 33% and 10%, respectively, in 2013 and 34% and 11%, respectively, in 2012.

The Hospital has reimbursement agreements with commercial insurance companies, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates, per diems and discounts from established charges.

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**5. Malpractice Trust Fund and Employee Group Health Claims**

The Hospital is covered under the “Tennessee Governmental Tort Liability Act” (T.C.A. 29-20-101, et seq). In addition to requiring claims be made in conformance with this Act, special provisions include, but are not limited to, special notice of requirements imposed upon the claimant, a one year statute of limitations, and a requirement that the governmental entity purchase insurance or be self-insured with certain limits. This Act also prohibits a judgment or award exceeding the minimum amounts of insurance coverage set out in the Act or the amount of insurance purchased by the governmental entity.

The Hospital provides professional liability coverage through a self-insurance malpractice trust fund. Under the trust agreement, the trust assets can only be used for payment of malpractice losses, related expenses, and the cost of administering the trust. The assets of, and contributions to, the trust are reported in the Statements of Net Position; income from the trust assets, claims and administrative costs are reported in the Statements of Revenues, Expenses and Changes in Net Position.

Claims and expenses of \$256,121 and \$173,773 were paid from the fund during the years ended June 30, 2013 and 2012, respectively. At June 30, 2013, the Hospital is involved in medical malpractice litigation in which management of the Hospital, after consultation with legal counsel, is of the opinion that liability, if any, related to these claims would not be material to the financial statements. No amounts are accrued for potential losses related to unreported incidents or reported incidents which have not yet resulted in asserted claims as the Hospital is not able to estimate such amounts.

The Hospital is self-insured for employee (and dependent) group health claims and records a liability for claims known but unpaid and estimated claims incurred but not reported. The liability for employee group health claims was \$1,198,490 and \$1,546,438 at June 30, 2013 and 2012, respectively. The total expense related to employee group health claims (net of employee paid premiums) was approximately \$13,836,000 and \$12,952,000 for 2013 and 2012, respectively.

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**6. Property and Equipment**

A summary of changes in property and equipment is as follows:

	<b>Balance July 01, 2012</b>	<b>Additions</b>	<b>Retirements and Transfers</b>	<b>Balance June 30, 2013</b>
Cost:				
Land	\$ 9,594,425	\$ 1,455,758	\$ –	\$ 11,050,183
Land improvements	2,382,783	–	–	2,382,783
Buildings, improvements, and fixed equipment	136,249,869	20,607,161	–	156,857,030
Equipment	90,345,931	26,823,505	–	117,169,436
Construction in progress	13,428,356	–	(11,047,666)	2,380,690
Total cost	252,001,364	48,886,424	(11,047,666)	289,840,122
Allowances for depreciation:				
Land improvements	(2,269,055)	(25,218)	–	(2,294,273)
Buildings, improvements, and fixed equipment	(73,304,692)	(5,815,940)	–	(79,120,632)
Equipment	(75,569,483)	(6,468,659)	–	(82,038,142)
Total allowances	(151,143,230)	(12,309,817)	–	(163,453,047)
Net property and equipment	\$100,858,134	\$36,576,607	\$(11,047,666)	\$126,387,075

Construction in progress at June 30, 2013 includes costs related to the software upgrades related to certified electronic health records, the pharmacy expansion, and a special procedure room for the catheterization laboratory, with total estimated costs to complete of approximately \$3,630,000.

	<b>Balance July 01, 2011</b>	<b>Additions</b>	<b>Retirements and Transfers</b>	<b>Balance June 30, 2012</b>
Cost:				
Land	\$ 9,494,550	\$ 99,875	\$ –	\$ 9,594,425
Land improvements	2,382,783	–	–	2,382,783
Buildings, improvements, and fixed equipment	134,994,404	1,255,465	–	136,249,869
Equipment	86,779,744	3,593,827	(27,640)	90,345,931
Construction in progress	9,026,917	5,155,825	(754,386)	13,428,356
Total cost	242,678,398	10,104,992	(782,026)	252,001,364
Allowances for depreciation:				
Land improvements	(2,214,888)	(54,167)	–	(2,269,055)
Buildings, improvements, and fixed equipment	(68,047,647)	(5,257,045)	–	(73,304,692)
Equipment	(69,811,279)	(5,785,844)	27,640	(75,569,483)
Total allowances	(140,073,814)	(11,097,056)	27,640	(151,143,230)
Net property and equipment	\$102,604,584	\$ (92,064)	\$ (754,386)	\$100,858,134

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**7. Other Assets**

Other assets include a \$2,040,000 investment in a partnership and the following net intangible assets at June 30:

	<u>2013</u>	<u>2012</u>
Goodwill	<b>\$2,520,038</b>	\$2,839,480
Trade name	<b>1,468,813</b>	–
Non-compete agreements	<b>1,414,387</b>	–
Medical records and workforce	<b>1,520,572</b>	–
Other	<b>175,000</b>	225,000
	<b><u>\$7,098,810</u></b>	<u>\$3,064,480</u>

Goodwill and trade name are being amortized over a period of forty years. Medical records and workforce are amortized over a period of twenty years. The non-compete agreements are being amortized over a period of three years. Amortization expense for intangibles was \$928,216 and \$50,000 for the years ended June 30, 2013 and 2012, respectively. Amortization expense for each of the next three years is estimated to approximate \$900,000.

**8. Long-term Debt**

Changes in long-term debt are summarized as follows:

	<u>Balance July 01, 2012</u>	<u>Principal Payments</u>	<u>Balance June 30, 2013</u>
Series 1998A Bonds	\$ 1,515,000	<b>\$1,515,000</b>	\$ –
Series 1998B Bonds	8,370,000	<b>870,000</b>	<b>7,500,000</b>
Series E-5-A Bonds	90,705,000	<b>1,580,000</b>	<b>89,125,000</b>
Total outstanding	100,590,000	<b><u>\$3,965,000</u></b>	<b>96,625,000</b>
Less current portion	(3,965,000)		<b>(4,115,000)</b>
Less unamortized loss on bond refunding	(923,275)		<b>(863,986)</b>
Long-term portion	<u>\$ 95,701,725</u>		<u><b>\$91,646,014</b></u>

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**8. Long-term Debt (continued)**

	<b>Balance July 01, 2011</b>	<b>Principal Payments</b>	<b>Balance June 30, 2012</b>
Series 1998A Bonds	\$ 2,960,000	\$1,445,000	\$ 1,515,000
Series 1998B Bonds	9,195,000	825,000	8,370,000
Series E-5-A Bonds	92,210,000	1,505,000	90,705,000
Total outstanding	<u>104,365,000</u>	<u>\$3,775,000</u>	100,590,000
Less current portion	(3,775,000)		(3,965,000)
Less unamortized loss on bond refunding	<u>(1,053,643)</u>		<u>(923,275)</u>
Long-term portion	<u>\$ 99,536,357</u>		<u>\$ 95,701,725</u>

In December 1998, Blount County issued, on behalf of the Hospital, \$15,420,000 of Hospital Revenue Refunding Bonds, Series 1998A and \$16,000,000 of Hospital Revenue Improvement Bonds, Series 1998B. The Series 1998A Bonds provided the funds necessary to refund the previously issued Blount County Hospital Revenue Bonds. The Hospital computed a loss on the refunding in 1999, which was deferred and amortized over the life of the refunded debt (\$0 in 2013 and \$71,070 in 2012). The proceeds of the Series 1998B Bonds provided funds for the Hospital's facilities and equipment.

The Series 1998A Bonds matured with the final payment of \$1,515,000 in fiscal year 2013 and had an interest rate of 4.60%. The Series 1998B Bonds mature in increasing annual amounts ranging from \$915,000 in 2014 to \$1,245,000 in 2020 at interest rates ranging from 5.10% to 5.15%. The Series 1998B Bonds are subject to redemption at the option of the County, in whole or in part, at the redemption price of par, without premium, plus accrued interest to the redemption date. The Series 1998B Bonds maturing on July 1, 2019 are subject to mandatory sinking fund redemptions prior to maturity beginning on July 1, 2016.

In August 2008, Blount County issued, on behalf of the Hospital, \$96,350,000 of Local Government Public Improvement Bonds, Series E-5-A. The Series E-5-A Bonds provided the funds necessary to refund the previously issued Series A-3-A and C-2-A Bonds and to reimburse issuance costs of \$775,000. The Hospital computed a loss on the refunding of \$1,155,490 which was deferred and is being amortized over the life of the refunded debt (\$59,289 in 2013 and 2012).

The Series E-5-A Bonds bear interest at variable rates; however, the interest rate swap agreements described below effectively fix the interest rate on the portion of the E-5-A Bonds totaling \$55,700,000. Scheduled principal reductions on the Series E-5-A Bonds increase in annual amounts ranging from \$3,200,000 in 2014 to \$8,425,000 in 2029. The Series E-5-A Bonds are subject to redemption at the option of the Hospital, in whole or in part, at the redemption price of par plus accrued interest to the redemption date.

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**8. Long-term Debt (continued)**

To protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the Hospital utilized two separate interest rate swap agreements to effectively fix the interest rates on a portion of the bonds. One interest rate swap agreement maturing in June 2026 establishes interest at an effective rate of 4.90% on \$25,000,000. The second interest rate swap agreement maturing in June 2029 establishes interest at an effective rate of 4.33% on \$30,700,000. The counterparties to these agreements owe the Hospital interest based on a variable rate that is calculated based on a published index rate. The bond principal subject to the swap agreements is not exchanged; only the net difference in interest payments is exchanged with the counterparties and recorded by the Hospital as interest expense. The Hospital, through the trustee, continues to pay interest to the bondholders at the variable rate provided by the bonds. During the term of each swap agreement, the Hospital effectively pays a fixed rate on the debt plus or minus the difference between the variable rate due on the bonds and the variable rate received from the counterparty.

The Hospital records the fair value liability of its interest rate swaps, which were determined by an independent third-party advisory firm from a model that calculates future cash flows by projecting forward rates and then discounts those cash flows to their present value.

As of June 30, 2013, the Hospital was not exposed to credit risk because the swaps have negative fair values. However, should interest rates change and the fair value of the swaps become positive, the Hospital would be exposed to credit risk in the amount of the fair value of the swaps. As of June 30, 2013, the counterparty to the swaps, Deutsche Bank, was rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

The Hospital is exposed to variable rates if the counterparties to the swaps default, if the variable rate received from the counterparties is less than that due on the bonds or if the swaps are terminated. The termination of the swap agreements could also result in the Hospital making or receiving a termination payment.

Maturities and mandatory sinking fund payments related to the balances outstanding as of June 30, 2013, are summarized as follows:

	<b>Series E-5-A</b>	<b>Series 1998B</b>	<b>Total</b>
2014	\$ 3,200,000	\$ 915,000	\$ 4,115,000
2015	3,375,000	960,000	4,335,000
2016	3,525,000	1,015,000	4,540,000
2017	3,700,000	1,065,000	4,765,000
2018	3,875,000	1,120,000	4,995,000
2019 – 2023	26,500,000	2,425,000	28,925,000
2024 – 2028	36,525,000	–	36,525,000
2029	8,425,000	–	8,425,000
	<b>\$89,125,000</b>	<b>\$7,500,000</b>	<b>\$96,625,000</b>

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**8. Long-term Debt (continued)**

Future interest payments related to the bonds are as follows (interest for variable portion of the Series E-5-A Bond is determined using the rate in effect at June 30, 2013, which was 0.07%).

	Series E-5-A	Series 1998B	Total
2014	\$ 2,578,519	\$ 360,828	\$ 2,939,347
2015	2,576,268	313,015	2,889,283
2016	2,573,897	262,399	2,836,296
2017	2,571,419	208,972	2,780,391
2018	2,568,819	278,928	2,847,747
2019 – 2023	12,314,647	–	12,314,647
2024 – 2028	6,753,105	–	6,753,105
2029	334,653	–	334,653
	<u>\$32,271,327</u>	<u>\$1,424,142</u>	<u>\$33,695,469</u>

The revenues of the Hospital are pledged as collateral for the bonds outstanding. Payment of principal and interest for the Series 1998B Bonds are insured by municipal bond insurance policies and the Series E-5-A Bonds are insured by a letter of credit. In addition, the bond agreements contain certain covenants which include deposits to trustee funds and maintenance of rates.

Funds held by trustees for the outstanding bond issues consisted of the following as of June 30:

	2013	2012
Debt service reserve funds	\$1,595,227	\$2,894,203
Bond funds	1,107,282	2,633,977
	<u>\$2,702,509</u>	<u>\$5,528,180</u>

The Hospital is required to make periodic payments to the bond funds to pay principal and interest on the bonds. The debt service reserve funds may be used to make principal and interest payments if the Hospital is unable to make such payments and a deficiency exists in the bond funds. Funds held by the trustees are invested primarily in obligations of the United States government or its agencies as allowed by the trust agreements.

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**9. Blended Component Units**

Foundation

At June 30, 2013 and 2012, the Foundation's assets and net position total \$1,381,029 and \$1,298,394, respectively, and consist of cash and investments (*Note 2*). A portion of the investments at June 30, 2013 and 2012 totaling \$935,838 and \$859,773, respectively, is restricted in perpetuity (nonexpendable) under an irrevocable endowment trust. Endowment trust net income is available for various Foundation activities. The 2013 statement of revenues, expenses and changes in net position includes Foundation contribution revenue of \$358,299, net investment income of \$116,691 and distributions and other expenses of \$392,355. The 2012 statements of revenues, expenses and changes in net position includes Foundation contribution revenue of \$430,978, net investment income of \$29,765 and distributions and other expenses of \$471,521. Separate financial statements of the Foundation are maintained by Foundation and Hospital management. Except for certain expenses paid directly by the Foundation, the Hospital provides administrative services and pays for operating expenses to support the Foundation's activities.

Blount Memorial Physicians Group

BMPG provides physician and outpatient services in Blount County and includes over 50 physicians in ten specialties. Separate financial statements are maintained by the Hospital. Condensed financial statements as of and for the year ended June 30, 2013 are as follows:

Condensed Statement of Net Position

Total current assets	<b>\$ 1,817,495</b>
Total current liabilities	<b>\$ 879,301</b>
Total net position (unrestricted)	<b>938,194</b>
Total liabilities and net position	<b>\$ 1,817,495</b>

Condensed Statement of Revenues, Expenses, and Changes in Net Position

Total operating revenues	<b>\$17,923,201</b>
Total operating expenses	<b>31,167,803</b>
Operating loss	<b>\$13,244,602</b>

Condensed Statement of Cash Flows

Net cash provided by operating activities	<b>\$ 165,755</b>
Cash and cash equivalents at beginning of year	<b>182,218</b>
Cash and cash equivalents at end of year	<b>\$ 347,973</b>

Blount Memorial Hospital, Inc.  
Notes to Financial Statements (continued)

**9. Blended Component Units (continued)**

*Blount Memorial Physicians Group (continued)*

Effective October 1, 2012, the Hospital acquired the assets of East Tennessee Medical Group (“ETMG”) and employed the physicians who now operate as part of BMPG. ETMG’s operations are located in Alcoa, Tennessee, and services include primary care and more than 10 specialty services.

The acquisition was accounted for as a purchase transaction where the Hospital recorded all assets acquired at their fair values on the date of acquisition. An independent valuation expert assisted in determining the fair values. The following table presents the allocation of the purchase price to assets acquired based on their estimated fair values.

Building	\$15,517,906
Land	1,335,000
Furniture and fixtures	2,101,848
Inventory	714,591
Medical records	518,148
Workforce	1,061,668
Trade name	1,496,880
Non-compete agreements	1,885,850
	<u>\$24,631,891</u>

**10. Retirement Plans**

The Blount Memorial Hospital Retirement Plan (the “Plan”) includes three defined contribution plans available to all employees who are age 18 or older and have completed 1,000 hours of service. Through March 2012, participants were 100% vested after five years of service. Effective April 1, 2012, the Plan was amended to change the vesting schedule to 20% each year from two years of service to six years of service. The Plan provides for the Hospital to contribute an amount equal to 3% of each eligible employee’s compensation plus a matching contribution (limited to 3% of compensation) based upon voluntary employee contributions to the Plan. Pension contributions are made biweekly. Hospital contributions to the Plan, net of forfeitures used of \$170,000 and \$520,000 in 2013 and 2012, respectively, totaled \$3,851,244 and \$3,665,159 in 2013 and 2012, respectively. Employee contributions were \$3,527,857 and \$3,578,186 in 2013 and 2012, respectively.

Blount Memorial Hospital, Inc.

List of Officials

June 30, 2013

**Board of Directors**

Robert P. Redwine, President

Ted L. Flickinger, M.D., Vice President

Jim C. Fiegler

Carolyn Forster

Francis M. Gross, Ed.D

Clarence B. Williams

David E. Pesterfield

David L. Cockrill

Denny J. Mayes

**Executive Administration**

I. Donald Heinemann, II

Jane T. Nelson

Jonathan Smith

Sonya Newman

Clay Puckett

Connie W. Huffman

Harold Naramore, M.D.



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Independent Auditor's 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*

To the Board of Directors  
Blount Memorial Hospital, Inc.

We have audited, 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, the financial statements of Blount Memorial Hospital, Inc. (the "Hospital") as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated September 17, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital'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 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.

To the Board of Directors  
Blount Memorial Hospital, Inc.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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*.

### **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 Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Coulter & Justus, P.C.*

September 17, 2013