



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

Basic Financial Statements and Schedules

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1-2
Basic Financial Statements:	
Statements of Net Position – June 30, 2015 and 2014	3
Statements of Revenues, Expenses, and Changes in Net Position – Years ended June 30, 2015 and 2014	4
Statements of Cash Flows – Years ended June 30, 2015 and 2014	5-6
Notes to Basic Financial Statements	7-33
Schedule 1 – Combining Schedule – Statement of Net Position – June 30, 2015	34
Schedule 2 – Combining Schedule – Statement of Net Position – June 30, 2014	35
Schedule 3 – Combining Schedule – Statement of Revenues, Expenses, and Changes in Net Position – Year ended June 30, 2015	36
Schedule 4 – Combining Schedule – Statement of Revenues, Expenses, and Changes in Net Position – Year ended June 30, 2014	37
Schedule 5 – Combining Schedule – Statement of Cash Flows – Year ended June 30, 2015	38
Schedule 6 – Combining Schedule – Statement of Cash Flows – Year ended June 30, 2014	39
Schedule 7 – Roster of Management Officials and Board Members (Unaudited)	40



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## **Independent Auditors' Report**

The Board of Directors  
Shelby County Health Care Corporation:

### **Report on the Financial Statements**

We have audited the accompanying statements of net position and statements of revenues, expenses, and changes in net position and cash flows of Shelby County Health Care Corporation, a component unit of Shelby County, Tennessee (d/b/a Regional One Health) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of Shelby County Health Care Corporation as of June 30, 2015 and 2014, and the respective changes in net position and cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Shelby County Health Care Corporation's basic financial statements. The supplementary information included in schedules 1, 2, 3, 4, 5, 6, and 7 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015, on our consideration of Shelby County Health Care Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shelby County Health Care Corporation's internal control over financial reporting and compliance.

**KPMG LLP**

Memphis, Tennessee  
October 23, 2015

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

Statements of Net Position

June 30, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Assets:		
Cash and cash equivalents	\$ 9,764,159	10,023,233
Investments	109,959,639	123,798,464
Patient accounts receivable, net of allowances for uncollectible accounts of \$169,265,000 in 2015 and \$107,042,000 in 2014	68,627,756	47,902,547
Other receivables	10,968,415	11,906,280
Other current assets	7,035,719	6,249,402
Restricted cash	514,785	542,310
Restricted investments	6,901,313	3,585,842
Investment in joint ventures	10,999,876	992,607
Notes receivable	19,221,600	19,221,600
Capital assets, net	96,007,465	102,349,163
Total assets	\$ 340,000,727	326,571,448
<b>Liabilities and Net Position</b>		
Liabilities:		
Accounts payable	\$ 14,092,765	8,023,749
Accrued expenses and other current liabilities	38,317,676	39,177,381
Accrued professional and general liability costs	4,530,000	4,852,000
Net postemployment benefit obligation	750,000	750,000
Notes payable	26,550,000	26,550,000
Total liabilities	84,240,441	79,353,130
Net position:		
Net investment in capital assets, net of related debt	69,457,465	75,799,163
Restricted for:		
Capital assets	2,855,282	2,670,763
Indigent care	834,684	915,079
Notes payable	514,785	542,310
Unrestricted	182,098,070	167,291,003
Total net position	255,760,286	247,218,318
Total liabilities and net position	\$ 340,000,727	326,571,448

See accompanying notes to basic financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Operating revenues:		
Net patient service revenue (including additional incremental reimbursement from various state agencies for participation in TennCare/Medicaid programs of approximately \$67,387,000 in 2015 and \$63,819,000 in 2014)	\$ 347,134,962	303,180,150
Other revenue	26,239,916	22,947,938
Total operating revenues	373,374,878	326,128,088
Operating expenses:		
Salaries and benefits	179,221,725	160,916,628
Supplies and services	84,128,275	76,026,589
Physician and professional fees	25,475,185	27,624,135
Purchased medical services	44,448,420	26,093,695
Plant operations	13,783,854	13,366,419
Insurance	2,843,248	2,333,416
Administrative and general	34,828,329	34,351,852
Community services	757,581	1,020,346
Depreciation	18,204,987	16,330,727
Total operating expenses	403,691,604	358,063,807
Operating loss	(30,316,726)	(31,935,719)
Nonoperating revenues (expenses):		
Interest expense	(265,500)	(212,400)
Investment income	3,578,035	5,118,741
Appropriations from Shelby County	26,816,000	26,816,001
Other	8,730,159	4,195,408
Total nonoperating revenues, net	38,858,694	35,917,750
Increase in net position	8,541,968	3,982,031
Net position, beginning of year	247,218,318	243,236,287
Net position, end of year	\$ 255,760,286	247,218,318

See accompanying notes to basic financial statements.

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

Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Receipts from and on behalf of patients and third-party payors	\$ 335,009,290	301,167,031
Other cash receipts	25,607,911	21,810,483
Payments to suppliers	(208,394,889)	(179,716,018)
Payments to employees and related benefits	(180,016,276)	(156,180,748)
Net cash used in operating activities	(27,793,964)	(12,919,252)
Cash flows from noncapital financing activity:		
Appropriations received from Shelby County	26,816,000	26,816,001
Net cash provided by noncapital financing activity	26,816,000	26,816,001
Cash flows from capital and related financing activities:		
Capital expenditures	(11,893,966)	(30,909,949)
Proceeds from new market tax credit	—	26,550,000
Proceeds from pledges	22,169	3,195,408
Proceeds from sale of capital assets	31,398	—
Interest payments	(269,625)	(75,525)
Net cash used in capital and related financing activities	(12,110,024)	(1,240,066)
Cash flows from investing activities:		
Issuance of notes receivable	—	(19,221,600)
Purchases of investments	(238,329,755)	(179,509,769)
Proceeds from sale of investments	249,085,424	176,002,728
Investment in joint ventures	(1,300,000)	(992,607)
Investment income proceeds	3,345,720	6,159,041
Net cash provided by (used in) investing activities	12,801,389	(17,562,207)
Net decrease in cash and cash equivalents	(286,599)	(4,905,524)
Cash and cash equivalents, beginning of year	10,565,543	15,471,067
Cash and cash equivalents, end of year	\$ 10,278,944	10,565,543

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

Statements of Cash Flows, continued

Years ended June 30, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (30,316,726)	(31,935,719)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation	18,204,987	16,330,727
Changes in operating assets and liabilities:		
Patients accounts receivable, net	(20,725,209)	(1,996,260)
Other receivables	937,865	(1,036,016)
Other current assets	(786,317)	(1,274,856)
Accounts payable	6,069,016	(4,018,689)
Accrued expenses and other current liabilities	(855,580)	11,521,561
Accrued professional and general liability costs	(322,000)	(348,000)
Net postemployment benefit obligation	—	(162,000)
Net cash used in operating activities	\$ (27,793,964)	(12,919,252)
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents in current assets	\$ 9,764,159	10,023,233
Cash and cash equivalents held for payment of outstanding debt fees	514,785	542,310
Total cash and cash equivalents	\$ 10,278,944	10,565,543
Supplemental schedule of noncash investing and financing activities:		
Net (decrease) increase in the fair value of investments	\$ (347,515)	1,088,490
Equity in joint ventures	8,707,269	94,662
Gain on capital asset disposals	721	—

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

**(1) Organization and Summary of Significant Accounting Policies**

Shelby County Health Care Corporation (d/b/a Regional One Health) was incorporated on June 15, 1981, with the approval of the Board of County Commissioners of Shelby County, Tennessee (the County). Regional One Health 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 2063.

Regional One Health is a component unit of the County as defined by Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. Regional One Health's component unit relationship to the County is principally due to financial accountability and financial benefit or burden as defined in GASB Statement No. 61. Regional One Health is operated by a 15-member board of directors, all of whom are appointed by the Mayor of the County and approved by the County Commission.

Regional One Health Foundation is a component unit of Regional One Health principally due to Regional One Health's financial accountability and financial benefit or burden for Regional One Health Foundation as defined in GASB Statement No. 61. Regional One Health Foundation is operated by a board of directors, all of whom are appointed by Regional One Health's board. Regional One Health Foundation is a blended component unit of Regional One Health because it provides services entirely to Regional One Health. Regional One Health Foundation issues separate audited financial statements, which can be obtained by writing to Regional Medical Center Foundation, 877 Jefferson Avenue, Memphis, Tennessee 38103 or by 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 Regional One Health's overall financial position and results of operations; however, Regional One Health has chosen to omit the MD&A from these accompanying financial statements.

The significant accounting policies used by Regional One Health in preparing and presenting its financial statements follow:

**(a) Presentation**

The financial statements include the accounts of Regional One Health and its wholly owned subsidiaries. Such subsidiaries include Regional One Properties, Inc., Regional Med Extended Care Hospital, LLC, and Shelby County Health Care Properties, Inc. 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.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

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.

In addition, laws and regulations governing 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***

Regional One Health's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting.

**(d) *Cash Equivalents***

Regional One Health 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 Regional One Health's equity interests in joint ventures as measured by its ownership interest if Regional One Health 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, undistributed earnings and losses, and impairment losses.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

**(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 position.

Regional One Health capitalizes interest cost on qualified construction expenditures, net of income earned on related trustee assets, as a component of the cost of related projects. No such interest costs were capitalized in 2015 or 2014.

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. 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 2015 or 2014.

**(j) Compensated Absences**

Regional One Health's employees accumulate vacation, holiday, and sick leave at varying rates depending upon years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation and holiday time at regular rate of pay up to a designated maximum number of days. Since the employees' vacation and holiday time accumulates and vests, an accrual for this liability is included in accrued expenses and other current liabilities in the accompanying statements of net position. An accrual is recognized for unused sick leave expected to be paid to employees eligible to retire.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

**(k) Net Position**

Net position of Regional One Health is classified into the following components:

- *Net investment in capital assets, net of related debt* consists of capital assets net of accumulated depreciation, net of the related debt.
- *Restricted* includes those amounts with limits on their use that are externally imposed (by creditors, grantors, contributors, or the laws and regulations of other governments).
- *Unrestricted* represents remaining amounts that do not meet either of the above definitions.

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

Regional One Health Foundation historically and to-date does not maintain donor-restricted endowment funds, or any Board-designated endowments. Regional One Health Foundation's Board has interpreted Tennessee's State Prudent Management of Institutional Funds Act 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 Regional One Health Foundation's donor-restricted endowment funds is itself restricted to specific donor-directed purposes, and is, therefore, accounted for within restricted amounts until expended in accordance with the donor's wishes. Regional One Health 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 Position**

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 investment income, interest expense, appropriations from Shelby County, gain (loss) on disposal of capital assets, and equity in earnings and impairment losses 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 \$587,000 and \$1,193,000 in 2015 and 2014, respectively.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

**(n) Charity Care**

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

When defining charity care, Regional One Health employs the Federal Poverty Guideline (FPG) to determine the level of discount uninsured patients receive. The level by which assistance is determined is through the scale set by the Department of Health and Human Services, which includes factors such as residents per household and income. Regional One Health's methodology includes all patients that fall at or below the 150% FPG baseline. Regional One Health does not have a cap to which patients will not qualify for a discount. Additionally, Regional One Health's charity care guidelines provide for an expansive definition of charity care patients, including an upfront discount from standard charges for uninsured patients.

**(o) Income Taxes**

Regional One Health is a not-for-profit corporation organized by the approval of the Board of County Commissioners of the County and qualifies as a tax-exempt entity under Internal Revenue Code (IRC) Section 501(a) as organizations described in IRC Section 501(c)(3), and therefore, related income is generally not subject to federal or state income taxes, except for tax on income from activities unrelated to its exempt purpose as described in IRC Section 512(a). Thus, no provision for income taxes has been recorded in the accompanying financial statements.

**(p) Appropriations**

The County has historically appropriated funds annually to Regional One Health to partially offset the cost of medical care for indigent residents of the County. Appropriations for indigent residents from the County were approximately \$26.8 million for both the years ended June 30, 2015 and 2014. Appropriations from the County are reported as nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position.

**(q) Subsequent Events**

Regional One Health has evaluated subsequent events through October 23, 2015, the date at which the financial statements were issued, and determined that there are no subsequent events to be recognized in the financial statements and related notes.

**(r) Reclassifications**

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

**(2) Deposits and Investments**

The composition of cash and cash equivalents follows:

	<b>2015</b>	<b>2014</b>
Cash	\$ 9,744,655	10,003,743
Money market funds	19,504	19,490
	\$ 9,764,159	10,023,233

Regional One Health's and Regional One Health Foundation's bank balances that are considered to be exposed to custodial credit risk are \$9,066,220 and \$9,686,816 at June 30, 2015 and 2014, respectively. Federal deposit insurance is \$250,000 on all noninterest bearing accounts as of June 30, 2015 and 2014.

Investments and restricted investments include amounts held by both Regional One Health and Regional One Health Foundation.

The composition of investments and restricted investments follows:

	<b>2015</b>	<b>2014</b>
U.S. agencies	\$ 64,108,405	65,808,105
Certificates of deposit	896,146	898,145
Corporate bonds	36,228,983	42,424,868
Demand deposit accounts and money market funds	6,385,686	5,267,851
U.S. government funds	—	448,152
Common stock	8,720,123	7,754,314
Bond funds and Bond exchange-traded fund	—	4,146,023
Accrued interest	521,609	636,848
	\$ 116,860,952	127,384,306

At June 30, 2015, Regional One Health and Regional One Health Foundation had investments in debt securities with the following maturities:

	<b>Fair value</b>	<b>Investment and restricted investment maturities (in years)</b>			
		<b>Less than 6 months</b>	<b>6 months to 1 year</b>	<b>1-5 years</b>	<b>5+ years</b>
U.S. agencies	\$ 64,108,405	7,005,393	9,655,516	30,139,605	17,307,891
Corporate bonds	36,228,983	564,746	2,669,948	29,654,286	3,340,003
	\$ 100,337,388	7,570,139	12,325,464	59,793,891	20,647,894

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

At June 30, 2014, Regional One Health and Regional One Health Foundation had investments in debt securities with the following maturities:

	<u>Fair value</u>	<u>Investment and restricted investment maturities (in years)</u>			
		<u>Less than 6 months</u>	<u>6 months to 1 year</u>	<u>1 – 5 years</u>	<u>5+ years</u>
U.S. agencies	\$ 65,808,105	—	—	23,484,145	42,323,960
Corporate bonds	42,424,868	1,510,330	1,950,695	35,320,680	3,643,163
	<u>\$ 108,232,973</u>	<u>1,510,330</u>	<u>1,950,695</u>	<u>58,804,825</u>	<u>45,967,123</u>

There were no investments that represented 5% or more of total investments for Regional One Health as of June 30, 2015 and 2014. At June 30, 2015, Regional One Health Foundation had one investment totaling \$512,878 in the SEI Daily Income Trust Government Fund that represented 5% or more of total investments for Regional One Health Foundation. There were no investments that represented 5% or more of total investments for Regional One Health Foundation as of June 30, 2014.

Regional One Health and Regional One Health Foundation have separate investment policies that are included below. The summary of investments throughout the financial statements includes the combined investment totals of Regional One Health and Regional One Health Foundation.

At June 30, 2015, Regional One Health's and Regional One Health Foundation's corporate bonds, collectively, had the following credit ratings per Standard and Poor's:

<u>Fair value</u>	<u>Credit rating</u>
\$ 4,784,327	BBB-
6,717,033	BBB
6,345,414	BBB+
7,610,862	A-
8,436,865	A
895,896	A+
1,159,164	AA-
279,422	AA+
<u>\$ 36,228,983</u>	

**SHELBY COUNTY HEALTH CARE CORPORATION**

(A Component Unit of Shelby County, Tennessee)

Notes to Basic Financial Statements

June 30, 2015 and 2014

At June 30, 2014, Regional One Health's and Regional One Health Foundation's corporate bonds, collectively, had the following credit ratings per Standard and Poor's:

	<u>Fair value</u>	<u>Credit rating</u>
\$	2,513,637	BBB-
	4,760,073	BBB
	3,505,818	BBB+
	12,748,006	A-
	12,685,509	A
	3,111,023	A+
	915,948	AA-
	997,873	AA
	1,186,981	AA+
	<u>42,424,868</u>	
\$	<u>42,424,868</u>	

As of June 30, 2015, Regional One Health's investment strategy, per its investment policy, 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 Regional One Health, listed in order of importance, are as follows:

1. Preserve principal
2. Maintain sufficient liquidity to meet future cash needs
3. Maintain a diversified portfolio to minimize risk
4. Maximize return subject to the above criteria

The duration of the bond investment portfolio should not exceed six years.

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 at least the second highest rating by a recognized investor service, preferably Standard and Poor's and Moody's Investors Service. Commercial paper shall not represent more than 50% of the portfolio.
2. *U.S. Treasury Securities* – U.S. Treasury notes, bills, and bonds. 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 rating by a recognized investor services, preferably Standard and Poor's

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

and Moody's Investors Service. Bank obligations (excluding repurchase agreements, commercial paper, and investments held by money market and mutual funds) may not represent more than 30% of the portfolio. In addition, brokered CDs may be purchased from institutions, irrespective of the institutions' debt ratings, so long as the obligations are fully backed by the FDIC.

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. *Money Market 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.” Regional One Health's investment in any one fund may not exceed 30% 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. No more than 25% may be invested in obligations of any one federal agency.
7. *Corporate Bonds* – Obligations of United States and foreign corporations (including trusts and municipalities of the United States) that carry at least the third highest rating by a recognized rating service, preferably Standard & Poor's or Moody's Investors Service. Corporate bonds, held directly and initially qualifying in one of the above categories, which have been downgraded below the third highest rating, may be sold at the discretion of management. Corporate bonds may not represent more than 40% of the portfolio, foreign corporate bonds may not represent more than 20% of the portfolio, and corporate bonds in the fourth highest rating category may not represent more than 20% of the portfolio.
8. *Bond Mutual Funds* – Any publicly available investment registered under the Investment Company Act of 1940 as an open-end mutual fund that is managing a portfolio or debt obligations. Each mutual fund should have a minimum of \$2 billion invested and hold at least 100 different debt obligations. Bond mutual funds can only hold the Authorized Investments meeting all the criteria described above. Additionally, bond mutual funds can hold corporate bonds in the fifth and sixth highest ratings category as long as such holdings to not exceed 10% of the portfolio. Corporate bonds, held via bond mutual funds and initially qualifying in one of the above categories, which have been downgraded below the sixth highest rating, may not exceed 2% of the portfolio.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

9. *Equity Mutual Funds* – Any publicly available investment registered under the Investment Company Act of 1940 as an open-end mutual fund that is managing a portfolio of equity securities. Each mutual fund should have a minimum of \$2 billion invested and hold at least 100 different equity securities. Such holdings should not represent more than 20% of the portfolio, Equity Mutual Funds can hold equity securities (including common and preferred stocks) of the 1,000 largest corporations in terms of market capitalization and inclusion in the Russell 1000 Index (representing large cap stocks) that are traded on U.S. exchanges reported in the Wall Street Journal.
10. *Debt Buy Back* – Any debt obligation backed directly by Regional One Health may be purchased so long as it is purchased at a discount.
11. Notwithstanding the above criteria, direct investments other than mutual funds that meet the following criteria are not permitted: corporations with more than 25% of revenues derived from the manufacture and sale of firearms, ammunition, and ammunition magazines to the general citizenry.

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

As of June 30, 2015 and 2014, Regional One Health Foundation utilized one investment manager. This manager is required to make investments in adherence to Regional One Health Foundation's current investment policy and objectives.

Regional One Health Foundation follows an investment strategy focused on maximizing 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 Regional One Health Foundation investment management strategy is to maintain an investment portfolio designed to generate a high level of current income with above-average stability.

Guidelines for investments and cash equivalents for Regional One Health Foundation follow:

1. Regional One Health Foundation's assets may be invested only in investment grade bonds rated Baa or higher as determined by Moody's Investors Service or by another acceptable rating agency.
2. The overall market-weighted quality rating of the bond portfolio shall be no lower than A.
3. Regional One Health Foundation's assets may be invested only in commercial paper rated P-2 (or equivalent) or better by Moody's Investors Service or by another acceptable rating agency.
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, 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.

**SHELBY COUNTY HEALTH CARE CORPORATION**

(A Component Unit of Shelby County, Tennessee)

Notes to Basic Financial Statements

June 30, 2015 and 2014

Regional One Health 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:

	<u>2015</u>	<u>2014</u>
Dividend and interest income	\$ 3,925,550	4,030,251
Net (decrease) increase in the fair value of investments	<u>(347,515)</u>	<u>1,088,490</u>
	<u>\$ 3,578,035</u>	<u>5,118,741</u>

**(3) Business and Credit Concentrations**

Regional One Health grants credit to patients, substantially all of whom are local area residents. Regional One Health 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, before application of related valuation allowances:

	<u>2015</u>	<u>2014</u>
Commercial insurance	29%	29%
Patients	33	42
Medicaid/TennCare	19	14
Medicare	<u>19</u>	<u>15</u>
	<u>100%</u>	<u>100%</u>

**(4) Other Receivables**

The composition of other receivables follows:

	<u>2015</u>	<u>2014</u>
Accounts receivable from University of Tennessee Center for Health Services	\$ 1,741,599	1,499,759
Accounts receivable from the County	154,680	85,025
Accounts receivable from the State of Tennessee	3,547,429	5,294,164
Grants receivable	1,025,254	337,080
Intercompany accounts receivable	1,295,526	—
Other	<u>3,203,927</u>	<u>4,690,252</u>
	<u>\$ 10,968,415</u>	<u>11,906,280</u>

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

**(5) Other Current Assets**

The composition of other current assets follows:

	<b>2015</b>	<b>2014</b>
Inventories	\$ 3,280,696	3,271,126
Prepaid expenses	3,755,023	2,978,276
	\$ 7,035,719	6,249,402

**(6) Capital Assets**

Capital assets and related activity consist of the following:

	<b>Balances at June 30, 2014</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balances at June 30, 2015</b>
Capital assets not being depreciated:					
Construction in progress	\$ 1,585,034	5,039,260	—	(3,752,881)	2,871,413
Land	5,835,326	—	—	(1,522,048)	4,313,278
	7,420,360	5,039,260	—	(5,274,929)	7,184,691
Total book value of capital assets not being depreciated					
Capital assets being depreciated:					
Land improvements	7,269,474	121,509	—	—	7,390,983
Buildings	65,236,701	—	—	1,522,048	66,758,749
Fixed equipment	138,900,279	1,801,265	—	813,025	141,514,569
Movable equipment	150,758,409	4,084,035	(223,349)	396,656	155,015,751
Software	32,839,280	847,897	—	2,543,200	36,230,377
	395,004,143	6,854,706	(223,349)	5,274,929	406,910,429
Total book value of capital assets being depreciated					
Less accumulated depreciation for:					
Land improvements	(5,786,325)	(175,041)	—	—	(5,961,366)
Buildings	(57,310,792)	(709,148)	—	—	(58,019,940)
Fixed equipment	(97,386,461)	(5,029,055)	—	—	(102,415,516)
Movable equipment	(119,918,449)	(8,577,235)	192,672	—	(128,303,012)
Software	(19,673,313)	(3,714,508)	—	—	(23,387,821)
	(300,075,340)	(18,204,987)	192,672	—	(318,087,655)
Total accumulated depreciation					
Capital assets being depreciated, net	94,928,803	(11,350,281)	(30,677)	5,274,929	88,822,774
Capital assets, net	\$ 102,349,163	(6,311,021)	(30,677)	—	96,007,465

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

	<b>Balances at June 30, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balances at June 30, 2014</b>
Capital assets not being depreciated:					
Construction in progress	\$ 9,919,814	21,579,341	—	(29,914,121)	1,585,034
Land	5,835,326	—	—	—	5,835,326
Total book value of capital assets not being depreciated	15,755,140	21,579,341	—	(29,914,121)	7,420,360
Capital assets being depreciated:					
Land improvements	6,864,451	336,240	—	68,783	7,269,474
Buildings	65,236,701	—	—	—	65,236,701
Fixed equipment	115,975,722	563,716	—	22,360,841	138,900,279
Movable equipment	138,377,501	5,287,528	—	7,093,380	150,758,409
Software	29,305,039	3,143,124	—	391,117	32,839,280
Total book value of capital assets being depreciated	355,759,414	9,330,608	—	29,914,121	395,004,143
Less accumulated depreciation for:					
Land improvements	(5,623,999)	(162,326)	—	—	(5,786,325)
Buildings	(56,578,513)	(732,279)	—	—	(57,310,792)
Fixed equipment	(93,225,866)	(4,160,595)	—	—	(97,386,461)
Movable equipment	(111,960,174)	(7,958,275)	—	—	(119,918,449)
Software	(16,356,061)	(3,317,252)	—	—	(19,673,313)
Total accumulated depreciation	(283,744,613)	(16,330,727)	—	—	(300,075,340)
Capital assets being depreciated, net	72,014,801	(7,000,119)	—	29,914,121	94,928,803
Capital assets, net	\$ 87,769,941	14,579,222	—	—	102,349,163

**(7) Investments in Joint Ventures**

The composition of investments in joint ventures follows:

	<b>2015</b>	<b>2014</b>
Investment in Memphis Medical Center Air Ambulance Service, Inc. (MMCAAS)	\$ 8,586,001	—
Regional One RH MOB 1 SPE, LLC	1,113,875	992,607
Investment in Central Billing Office	1,300,000	—
	\$ 10,999,876	992,607

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

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

Regional One Health and two other local healthcare systems. Regional One Health 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. During fiscal 2010, management evaluated its investment in MMCAAS and determined that realization of Regional One Health's investment in MMCAAS at dissolution was not probable. Accordingly, management considered the investment impaired and recorded a valuation allowance to bring the investment value to \$0. In fiscal 2015, management determined previous impairment of the investment was incorrect, and recorded the full value of the investment as of June 30, 2015, which is included in other nonoperating activities in the statements of revenues, expenses, and changes in net position.

In March 2014, Regional One Properties, Inc., a wholly owned subsidiary of Shelby County HealthCare Corporation, became a 50% owner in Regional One RH MOB 1 SPE, LLC. This joint venture with a local developer and other various owners was to purchase an office building in Memphis, Tennessee with intentions of converting this building into medical space and offices. Regional One Properties, Inc. made an initial investment of approximately \$1,000,000.

In October 2014, the Central Billing Office (CBO) was formed by Regional One Health and two other local healthcare entities, with Regional One Health being a one-third owner and appointing one-third of the board members. The CBO performs billing and collection services for its three members, including billing for University of Tennessee Regional One Physicians (UTROP) services for Regional One Health. Regional One Health made an initial investment of \$1,300,000.

**(8) New Market Tax Credit Program and Long-term Debt**

Regional One Health entered into a transaction with SunTrust Community Capital, LLC on September 13, 2013 to obtain financing through the New Market Tax Credit (NMTC) Program sponsored by the Department of Treasury. The NMTC Program permits certain corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments (QEI) in community development entities. The credit provided to the investor totals 39% of the initial value of the QEI and is claimed over a seven-year credit allowance period.

As part of this transaction Regional One Health and SunTrust Community Capital, LLC contributed approximately \$19,222,000 and \$7,328,000, respectively, to The Med Memphis Investment Fund, LLC, an entity created to provide funding for investments in special purposes entities called community development entities (CDEs). Regional One Health provided funding and received a notes receivable as part of the NMTC program as follows:

	<b>2015</b>	<b>2014</b>
Notes receivable	\$ 19,221,600	19,221,600

The notes receivable requires interest only payments of 1.119% annually on the unpaid principal balance, which is due on February 15 following the end of a calendar year, beginning February 15, 2014 through February 15, 2021. Beginning on February 15, 2022, principal and interest payments will be due and will continue annually until the maturity of the notes receivable on February 15, 2035. Additional principal payments are required related to this notes receivable in an amount equal to 90% of net cash flow, as defined in the borrowers operating agreement.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

In fiscal year 2014, Shelby County Health Care Properties, Inc. was formed as part of the NMTC Program with Regional One Health as the sole member. Shelby County Health Care Properties, Inc. executed note payable agreements on September 13, 2013 with several CDE's that provide for borrowings of \$26,550,000. The proceeds from these notes payable were used for the expansion of Regional One Health and are treated as a "qualified low-income community investment" for purposes of generating new markets tax credits under Section 45d of the Internal Revenue Code of 1986, as amended.

Long-term debt related to the NMTC program is summarized as follows:

	<b>2015</b>	<b>2014</b>
Note payable to RGC 2, LLC, interest paid quarterly at an interest rate of 1.00%, the maturity date is September 13, 2038	\$ 5,500,000	5,500,000
Note payable to NDC New Markets Investments LXXXIII, LLC, interest paid quarterly at an interest rate of 1.00%, the maturity date is September 13, 2038	6,790,000	6,790,000
Note payable to CHHS Subsidiary CDE 7, LLC, interest paid quarterly at an interest rate of 1.00%, the maturity date is September 13, 2038	7,760,000	7,760,000
Note payable to ST CDE XIV, LLC, interest paid quarterly at an interest rate of 1.00%, the maturity date is September 13, 2038	6,500,000	6,500,000
	\$ 26,550,000	26,550,000

A schedule of changes in the long-term debt related to the NMTC program for 2015 follows:

	<b>Date of Issuance</b>	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Retired</b>	<b>Balance June 30, 2015</b>	<b>Due within one year</b>
Note payable to RGC 2, LLC	9/13/2013	\$ 5,500,000	—	—	5,500,000	—
Note payable to NDC New Markets Investment LXXXIII, LLC	9/13/2013	6,790,000	—	—	6,790,000	—
Note payable to CHHS subsidiary CDE 7, LLC	9/13/2013	7,760,000	—	—	7,760,000	—
Note payable to ST CDE XIV, LLC	9/13/2013	6,500,000	—	—	6,500,000	—
		\$ 26,550,000	—	—	26,550,000	—

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

A schedule of changes in the long-term debt related to the NMTC program for 2014 follows:

	<u>Date of Issuance</u>	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance June 30, 2014</u>	<u>Due within one year</u>
Note payable to RGC 2, LLC	9/13/2013	\$ —	5,500,000	—	5,500,000	—
Note payable to NDC New Markets Investment LXXXIII, LLC	9/13/2013	—	6,790,000	—	6,790,000	—
Note payable to CHHS subsidiary CDE 7, LLC	9/13/2013	—	7,760,000	—	7,760,000	—
Note payable to ST CDE XIV, LLC	9/13/2013	—	6,500,000	—	6,500,000	—
		<u>\$ —</u>	<u>26,550,000</u>	<u>—</u>	<u>26,550,000</u>	<u>—</u>

The aggregate annual maturities of the long-term debt at June 30, 2015 are as follows:

2016	\$ —
2017	—
2018	—
2019	—
2020	—
Thereafter	<u>26,550,000</u>
	<u>\$ 26,550,000</u>

The principal balance is due, for each of the notes payable listed above, in its entirety on the stated maturity date. Interest paid was approximately \$270,000 in 2015 and \$76,000 in 2014, respectively.

**(9) Accrued Expenses and Other Current Liabilities**

The composition of accrued expenses and other current liabilities follows:

	<u>2015</u>	<u>2014</u>
Due to third-party payors	\$ 16,013,000	9,225,000
Compensated absences	9,341,125	7,949,085
Deferred grant revenue	164,375	3,382,545
Accrued payroll and withholdings	7,487,149	10,562,740
Accrued employee healthcare claims	2,715,000	1,826,000
Professional and general liability costs	2,300,000	2,300,000
Other	297,027	3,932,011
	<u>\$ 38,317,676</u>	<u>39,177,381</u>

**(10) Net Patient Service Revenue**

Regional One Health has agreements with governmental and other third-party payors that provide for reimbursement to Regional One Health at amounts different from its established rates. Contractual

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

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. Regional One Health is paid for retroactively determined items at tentative rates with final settlement determined after submission of annual cost reports by Regional One Health and audits thereof by Regional One Health fiscal intermediary.

Regional One Health'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. Regional One Health's Medicare cost reports have been audited and settled by Regional One Health's fiscal intermediary through June 30, 2011. Revenue from the Medicare program accounted for approximately 21% and 23% of Regional One Health's net patient service revenue for the years ended June 30, 2015 and 2014, 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. Regional One Health 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 22% and 25% of Regional One Health's net patient service revenue for the years ended June 30, 2015 and 2014, respectively.

Regional One Health has historically received incremental reimbursement in the form of Essential Access payments through its participation in the TennCare Program. Amounts received by Regional One Health under this program were approximately \$59.7 million and \$57.0 million in 2015 and 2014, respectively. These amounts have been recognized as reductions in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net position. There can be no assurance that Regional One Health 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 Regional One Health's operations.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

- *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. Regional One Health is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by Regional One Health and audits thereof by the Arkansas Department of Health and Human Services (DHHS). Regional One Health’s Arkansas Medicaid cost reports have been audited and settled by the Arkansas DHHS through June 30, 2014. Revenue from the State of Arkansas Medicaid program accounted for approximately 2% of Regional One Health’s net patient service revenue for both years ended June 30, 2015 and 2014.

Regional One Health has historically received incremental reimbursement in the form of Upper Payment Limit (UPL) and additional appropriation payments through its participation in the State of Arkansas Medicaid program. The net benefit for Regional One Health associated with this program, totaling approximately \$2.3 million and \$2.4 million for the years ended June 30, 2015 and 2014, respectively, has been recognized as a reduction in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net position. There can be no assurance that Regional One Health will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

- *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 2% and 3% of Regional One Health’s net patient service revenue for the years ended June 30, 2015 and 2014, respectively.

Regional One Health has historically received incremental reimbursement in the form of Upper Payment Limit (UPL) and additional appropriation payments through its participation in the State of Mississippi Medicaid program. The net benefit for Regional One Health associated with this program, totaling approximately \$5.4 and \$4.5 million for the years ended June 30, 2015 and 2014, respectively, has been recognized as a reduction in related contractual adjustments in the accompanying statements of revenues, expenses, and changes in net position.

- *Other* – Regional One Health has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The reimbursement methodologies under these agreements include prospectively determined rates per discharge, per diem amounts, and discounts from established charges.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

The composition of net patient service revenue follows:

	<b>2015</b>	<b>2014</b>
Gross patient service revenue	\$ 1,106,384,701	997,469,026
Less provision for contractual and other adjustments	670,979,457	618,033,743
Less provision for bad debts	88,270,282	76,255,133
Net patient service revenue	\$ 347,134,962	303,180,150

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

	<b>2015</b>	<b>2014</b>
TennCare Essential Access	\$ 59,654,700	56,894,499
Arkansas UPL/Disproportionate Share	2,326,509	2,434,905
Mississippi Disproportionate Share	5,405,965	4,490,029
Total payments	\$ 67,387,174	63,819,433

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, Regional One Health must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and “meaningful use” of health information technology (HIT). The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adoption of EHR technology. Regional One Health received approximately \$391,000 and \$1,900,000 of incentive payments related to EHR implementation for the years ended June 30, 2015 and 2014, respectively. These amounts are included within net patient service revenue within the statements of revenues, expenses, and change in net position.

**(11) Charity Care**

Regional One Health 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 \$283.7 million and \$286.9 million in 2015 and 2014, respectively. Included in the charges foregone is the upfront discount applied to all uninsured patients of approximately \$98.3 million and \$130.4 million in 2015 and 2014, respectively, as Regional One Health does not pursue collection on these amounts.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

**(12) Retirement Plans**

**(a) *Defined Benefit Plan***

Regional One Health contributes to the Shelby County Retirement System (the Retirement System), a cost-sharing single-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 North Main, Memphis, Tennessee 38103 or by 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.

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 contributory 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. Plan A was noncontributory for all years prior to 2013.

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 or Regional One Health. The Retirement System provides retirement, as well as survivor and disability defined benefits.

The Retirement System's funding policy for employee contribution requirements is established by the Board of Administration of the Retirement System. The Shelby County Board of Commissioners establishes the Retirement System's funding policy for employer contribution requirements. For fiscal years 2015, 2014, and 2013, the employer contribution requirements were based on the actuarially determined contribution rates, which were 13.35%, 13.26%, and 12.75%, respectively.

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

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

For fiscal years 2015, 2014, and 2013, the following contributions were made to the defined benefit plans:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Regional One Health's contributions:			
Plan A	\$ 266,282	367,032	360,271
Plan B	233	2,020	1,999
Plan C	157,330	82,447	86,391
Employee contributions:			
Plan A	\$ 27,224	20,783	15,728
Plan B	82	709	703
Plan C	24,700	23,343	26,524

The contributions as a percentage of earned compensation were the same as those for the Retirement System. Regional One Health contributed 100% of its required contributions in 2015, 2014, and 2013.

**(b) Defined Contribution Plan**

Effective July 1, 1985, Regional One Health 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 Regional One Health makes contributions. The plan provides for employee contributions of between 2% and 6% of compensation and for equal matching contributions made by Regional One Health. Participants are immediately vested in their contributions plus actual earnings thereon. Participants vest 20% in the employers matching contributions after two years of service, 50% after three years, 75% after four years, and 100% after five years. Forfeitures are returned to Regional One Health to reduce future matching contributions. The defined contribution plan ceased accepting contributions on September 30, 2009; therefore, there were no contributions by Regional One Health or participants for the years ended June 30, 2015 and 2014.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

Effective October 1, 2009, Regional One Health established, under the authority of its Board of Directors, The Regional Medical Center at Memphis 403(b) Retirement Plan, a defined contribution pension plan covering employees 21 years of age and older who have completed one year of service. The plan provides for a 100% employer match on employee contributions up to 4% of employee compensation. Participants are immediately vested in their contributions plus actual earnings thereon. Participants vest 20% in the employers matching contributions after two years of service, 50% after three years, 75% after four years, and 100% after five years. Forfeitures remain in the plan for the benefit of other participants. Regional One Health contributed approximately \$2.4 million and \$1.6 million to the 403(b) plan for the years ended June 30, 2015 and 2014, respectively. 403(b) plan participants contributed approximately \$4.3 million and \$3.4 million to the 403(b) plan for the years ended June 30, 2015 and 2014, respectively.

Effective December 1, 2010, Regional One Health established, under the authority of its Board of Directors, The Regional Medical Center at Memphis Nonqualified Supplemental Retirement Plan (Supplemental Retirement Plan). The Supplemental Retirement Plan was formed under Section 457(f) of the IRC of 1986, and management believes that it complies with all provisions applicable to a nonqualified deferred compensation plan under IRC Section 409A. Plan participants contributed approximately \$194,000 and \$84,000 to the plan for both the years ended June 30, 2015 and 2014, 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 Regional One Health. The Plan provides medical and life insurance benefits to eligible retirees and their spouses. Regional One Health's Board of Directors is authorized to establish and amend all provisions. Regional One Health does not issue a publicly available financial report that includes financial statements and required supplementary information for the Plan.

During fiscal year 2010, Regional One Health's Board of Directors approved a plan amendment that eliminated medical coverage for those employees who did not have 15 years of service as of December 31, 2009 and eliminated life insurance coverage for those employees retiring January 1, 2010 or later.

Per GASB Statement No. 45, *Accounting and Financial Reporting Employers for Postemployment Benefits Other Than Pensions*, for financial reporting purposes an actuarial valuation is required at least biennially for postretirement benefit plans with a total membership of 200 or more. Regional One Health's postretirement benefit plan had approximately 333 members as of the last actuarial valuation of June 30, 2014. Regional One Health did not obtain an actuarial valuation for the year ended June 30, 2015. Therefore, all actuarial determined accounts shown below are as of June 30, 2014.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

(a) **Funding Policy**

The contribution requirements of employees and the Plan are established and may be amended by Regional One Health's Board of Directors. Monthly contributions are required by retirees who are eligible for coverage. Regional One Health pays for costs in excess of required retiree contributions. These contributions are assumed to increase based on future medical plan cost increases. For fiscal 2015 and 2014, Regional One Health contributed approximately \$1,181,000 and \$1,452,000, respectively, net of retiree contributions, to the Plan. Plan members receiving benefits contributed approximately \$233,000 in fiscal 2015 and \$199,000 in fiscal 2014 through their required contributions. The following table summarizes the monthly contribution rates for the year beginning July 1, 2013:

	<b>Retiree</b>	<b>Spouse</b>
Pre-Medicare	\$ 1,560	1,776
Pre-Medicare Eligible	672	1,596

(b) **Annual OPEB Cost and Net OPEB Obligation**

Regional One Health'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 Regional One Health's annual OPEB cost for fiscal 2014, the amounts actually contributed to the Plan, and changes in Regional One Health's net OPEB obligation:

Annual required contributions and annual OPEB cost	\$ 1,290,462
Contributions made	1,452,462
Decrease in net OPEB obligation	(162,000)
Net OPEB obligation, beginning of year	912,000
Net OPEB obligation, end of year	\$ 750,000

(c) **Three-Year Trend Information**

<b>Fiscal year ended</b>	<b>Annual OPEB cost</b>	<b>Percentage of annual OPEB cost contributed</b>	<b>Net OPEB obligation</b>
June 30, 2015	N/A*	N/A	N/A
June 30, 2014	\$ 1,290,462	112.6%	\$ 750,000
June 30, 2013	1,296,634	100.0	912,000

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

\*As described above, Regional One Health did not obtain an actuarial evaluation over the post retirement benefit plan for the year ended June 30, 2015.

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

As of July 1, 2013, the most recent actuarial valuation date, the Plan was not funded. The actuarial accrued liability for benefits was \$20,050,142 resulting in an unfunded actuarial accrued liability (UAAL) of \$20,050,142.

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	AAL as of a percentage of covered payroll
July 1, 2013	\$ —	20,050,142	20,050,142	—	\$ 18,116,596	111.0
July 1, 2012	—	20,319,023	20,319,023	—	18,693,833	109.0

\* All inputs for valuation is provided as of beginning of the fiscal year being actuarially valued.

**(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.

In the July 1, 2013 actuarial valuation, the projected unit credit actuarial method was used. The actuarial assumptions included a 3% 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 5.7%, reducing each year until it reaches an annual rate of 4.5% in 2084. The UAAL is being amortized, using a level percentage of pay method, over a 30-year period under the Projected Unit Credit Method.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

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

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

Operating expenses include approximately \$26.1 million in 2015 and \$44.3 million in 2014 for all professional and other services provided by UTCHS/UTMG.

On October 1, 2014, Regional One Health and the University of Tennessee Health Science Center created a jointly governed physician's group known as the University of Tennessee Regional One Physicians (UTROP). The UTROP physician group will replace the existing relationship between Regional One Health and UTMG, and will provide Regional One Health's professional supervision of certain ancillary departments and professional care for patients. Under the UTROP professional services agreement, UTROP assigns all physician revenue to Regional One Health for a fixed contracted fee based on the number of physicians needed to operate the hospital. Regional One Health records the patient service revenue earned by these physicians as gross patient service revenue and is at risk for the collection of these amounts. The fixed fee amount paid by Regional One Health to UTROP during the 2015 year was approximately \$35.6 million and is included in purchased medical services on the statement of revenues, expenses, and changes in net position.

**(15) Risk Management**

Regional One Health 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. Regional One Health has not acquired any excess coverage for its self-insurance because Regional One Health is afforded sovereign immunity in accordance with applicable statutes. Presently, sovereign immunity limits losses to \$300,000 per claim. Regional One Health has recorded an accrual for self-insurance losses totaling approximately \$6.8 million and \$7.2 million at June 30, 2015 and 2014, respectively.

Incurred losses identified through Regional One Health's incident reporting system and incurred but not reported losses are accrued based on estimates that incorporate Regional One Health'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.

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

Notes to Basic Financial Statements

June 30, 2015 and 2014

The following is a summary of changes in Regional One Health's self-insurance liability for professional and general liability costs for fiscal 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Balance at July 1	\$ 7,152,000	7,500,000
Provision for claims reported and claims incurred but not reported	179,580	251,090
Claims paid	(501,580)	(599,090)
	6,830,000	7,152,000
Amounts classified as accrued expenses and other current liabilities	(2,300,000)	(2,300,000)
Balance at June 30	\$ 4,530,000	4,852,000

Like many other businesses, Regional One Health 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, 2015 have not exceeded this commercial coverage in any of the three preceding years.

The following is a summary of changes in Regional One Health's self-insurance liability for employee health coverage (included in accrued expenses and other current liabilities in the accompanying balance sheets) for fiscal 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Balance at July 1	\$ 1,826,000	1,745,000
Claims reported and claims incurred but not reported	16,024,010	12,387,868
Claims paid	(15,135,010)	(12,306,868)
Balance at June 30	\$ 2,715,000	1,826,000

**SHELBY COUNTY HEALTH CARE CORPORATION**

(A Component Unit of Shelby County, Tennessee)

Notes to Basic Financial Statements

June 30, 2015 and 2014

**(16) Commitments**

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

2016	\$	1,564,699
2017		1,579,699
2018		1,539,473
2019		1,499,246
2020		1,499,247
Thereafter		1,499,247
	\$	<u>9,181,611</u>

Expense under these contracts and other contracts was approximately \$11.8 million and \$9.6 million for the years ended June 30, 2015 and 2014, respectively.

**(17) Leases**

Regional One Health has entered into noncancelable operating leases for certain buildings and equipment. Rental expense for all operating leases was approximately \$5.2 million and \$5.0 million for the years ended June 30, 2015 and 2014, respectively. The future minimum payments under noncancelable operating leases as of June 30, 2015 follow:

2016	\$	3,623,840
2017		3,522,678
2018		2,951,527
2019		1,657,141
2020		1,469,834
Thereafter		9,314,964
	\$	<u>22,539,984</u>

**(18) Health Care Industry Environment**

Management at Regional One Health monitors economic conditions closely, both with respect to potential impacts on the healthcare provider industry and from a more general business perspective. Management recognizes that economic conditions may continue to impact Regional One Health in a number of ways, including uncertainties associated with U.S. healthcare system reform and emerging high-deductible plan funded patient volumes coupled with increases in uncompensated care and decreasing reimbursement rates relative to governmental payors.

## SHELBY COUNTY HEALTH CARE CORPORATION

(A Component Unit of Shelby County, Tennessee)

Combining Schedule – Statement of Net Position

June 30, 2015

Assets	Shelby County Health Care Corporation and other Subsidiaries*	Shelby County Health Care Properties, Inc.	Eliminations	Combined
Assets:				
Cash and cash equivalents	\$ 9,716,806	47,353	—	9,764,159
Investments	109,959,639	—	—	109,959,639
Patient accounts receivable, net	68,627,756	—	—	68,627,756
Other receivables	10,819,415	149,000	—	10,968,415
Other current assets	5,983,237	1,052,482	—	7,035,719
Restricted cash	—	514,785	—	514,785
Restricted investments	6,901,313	—	—	6,901,313
Investment in joint ventures	10,999,876	—	—	10,999,876
Notes receivable	19,221,600	—	—	19,221,600
Capital assets, net	56,687,802	39,319,663	—	96,007,465
Total assets	<u>\$ 298,917,444</u>	<u>41,083,283</u>	<u>—</u>	<u>340,000,727</u>
<b>Liabilities and Net Position</b>				
Liabilities:				
Accounts payable	\$ 14,092,765	—	—	14,092,765
Accrued expenses and other current liabilities	38,169,476	148,200	—	38,317,676
Accrued professional and general liability costs	4,530,000	—	—	4,530,000
Net postemployment benefit obligation	750,000	—	—	750,000
Notes payable	—	26,550,000	—	26,550,000
Total liabilities	<u>57,542,241</u>	<u>26,698,200</u>	<u>—</u>	<u>84,240,441</u>
Net position:				
Invested in capital assets, net of related debt	56,687,802	12,769,663	—	69,457,465
Restricted for:				
Capital assets	2,855,282	—	—	2,855,282
Indigent care	834,684	—	—	834,684
Notes payable	—	514,785	—	514,785
Unrestricted	180,997,435	1,100,635	—	182,098,070
Total net position	<u>241,375,203</u>	<u>14,385,083</u>	<u>—</u>	<u>255,760,286</u>
Total liabilities and net position	<u>\$ 298,917,444</u>	<u>41,083,283</u>	<u>—</u>	<u>340,000,727</u>

\* Shelby County Health Care Corporation and other subsidiaries includes the entities Shelby County Health Care Corporation, Regional Med Extended Care Hospital LLC, Regional One Foundation and Regional One Properties, Inc.

See accompanying independent auditors' report.

**SHELBY COUNTY HEALTH CARE CORPORATION**

(A Component Unit of Shelby County, Tennessee)

Combining Schedule – Statement of Net Position

June 30, 2014

Assets	Shelby County Health Care Corporation and other Subsidiaries*	Shelby County Health Care Properties, Inc.	Eliminations	Combined
Assets:				
Cash and cash equivalents	\$ 9,981,833	41,400	—	10,023,233
Investments	123,798,464	—	—	123,798,464
Patient accounts receivable, net	47,902,547	—	—	47,902,547
Other receivables	11,757,277	149,003	—	11,906,280
Other current assets	4,999,708	1,249,694	—	6,249,402
Restricted cash	—	542,310	—	542,310
Restricted investments	3,585,842	—	—	3,585,842
Investment in joint ventures	992,607	—	—	992,607
Notes receivable	19,221,600	—	—	19,221,600
Capital assets, net	62,222,386	40,126,777	—	102,349,163
Total assets	<u>\$ 284,462,264</u>	<u>42,109,184</u>	<u>—</u>	<u>326,571,448</u>
<b>Liabilities and Net Position</b>				
Liabilities:				
Accounts payable	\$ 8,023,749	—	—	8,023,749
Accrued expenses and other current liabilities	39,025,356	152,025	—	39,177,381
Accrued professional and general liability costs	4,852,000	—	—	4,852,000
Net postemployment benefit obligation	750,000	—	—	750,000
Notes payable	—	26,550,000	—	26,550,000
Total liabilities	<u>52,651,105</u>	<u>26,702,025</u>	<u>—</u>	<u>79,353,130</u>
Net position:				
Invested in capital assets, net of related debt	62,222,385	13,576,778	—	75,799,163
Restricted for:	—	—	—	—
Capital assets	2,670,763	—	—	2,670,763
Indigent care	915,079	—	—	915,079
Notes payable	—	542,310	—	542,310
Unrestricted	166,002,932	1,288,071	—	167,291,003
Total net position	<u>231,811,159</u>	<u>15,407,159</u>	<u>—</u>	<u>247,218,318</u>
Total liabilities and net position	<u>\$ 284,462,264</u>	<u>42,109,184</u>	<u>—</u>	<u>326,571,448</u>

\* Shelby County Health Care Corporation and other subsidiaries includes the entities Shelby County Health Care Corporation, Regional Med Extended Care Hospital LLC, Regional One Foundation and Regional One Properties, Inc.

See accompanying independent auditors' report.

**SHELBY COUNTY HEALTH CARE CORPORATION**

(A Component Unit of Shelby County, Tennessee)

Combining Schedule – Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2015

	<b>Shelby County Health Care Corporation and other Subsidiaries*</b>	<b>Shelby County Health Care Properties, Inc.</b>	<b>Eliminations</b>	<b>Combined</b>
Operating revenues:				
Net patient service revenue	\$ 347,134,962	—	—	347,134,962
Other revenue	25,941,916	298,000	—	26,239,916
Total operating revenues	<u>373,076,878</u>	<u>298,000</u>	<u>—</u>	<u>373,374,878</u>
Operating expenses:				
Salaries and benefits	179,221,725	—	—	179,221,725
Supplies and services	84,128,275	—	—	84,128,275
Physician and professional fees	25,475,185	—	—	25,475,185
Purchased medical services	44,448,420	—	—	44,448,420
Plant operations	13,783,854	—	—	13,783,854
Insurance	2,843,248	—	—	2,843,248
Administrative and general	34,580,867	247,462	—	34,828,329
Community services	757,581	—	—	757,581
Depreciation	13,527,554	4,677,433	—	18,204,987
Total operating expenses	<u>398,766,709</u>	<u>4,924,895</u>	<u>—</u>	<u>403,691,604</u>
Operating loss	<u>(25,689,831)</u>	<u>(4,626,895)</u>	<u>—</u>	<u>(30,316,726)</u>
Nonoperating revenues (expenses):				
Interest expense	—	(265,500)	—	(265,500)
Investment income	3,578,035	—	—	3,578,035
Appropriations from Shelby County	26,816,000	—	—	26,816,000
Other	8,729,084	1,075	—	8,730,159
Transfers in (out)	(3,869,244)	3,869,244	—	—
Total nonoperating revenues, net	<u>35,253,875</u>	<u>3,604,819</u>	<u>—</u>	<u>38,858,694</u>
Increase (decrease) in net position	<u>9,564,044</u>	<u>(1,022,076)</u>	<u>—</u>	<u>8,541,968</u>
Net position, beginning of year	<u>231,811,159</u>	<u>15,407,159</u>	<u>—</u>	<u>247,218,318</u>
Net position, end of year	<u>\$ 241,375,203</u>	<u>14,385,083</u>	<u>—</u>	<u>255,760,286</u>

\* Shelby County Health Care Corporation and other subsidiaries includes the entities Shelby County Health Care Corporation, Regional Med Extended Care Hospital LLC, Regional One Foundation and Regional One Properties, Inc.

See accompanying independent auditors' report.

**SHELBY COUNTY HEALTH CARE CORPORATION**

(A Component Unit of Shelby County, Tennessee)

Combining Schedule – Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2014

	<b>Shelby County Health Care Corporation and other Subsidiaries*</b>	<b>Shelby County Health Care Properties, Inc.</b>	<b>Eliminations</b>	<b>Combined</b>
Operating revenues:				
Net patient service revenue	\$ 303,180,150	—	—	303,180,150
Other revenue	22,709,538	238,400	—	22,947,938
Total operating revenues	<u>325,889,688</u>	<u>238,400</u>	<u>—</u>	<u>326,128,088</u>
Operating expenses:				
Salaries and benefits	160,916,628	—	—	160,916,628
Supplies and services	76,026,589	—	—	76,026,589
Physician and professional fees	27,624,135	—	—	27,624,135
Purchased medical services	26,093,695	—	—	26,093,695
Plant operations	13,366,419	—	—	13,366,419
Insurance	2,333,416	—	—	2,333,416
Administrative and general	34,142,206	209,646	—	34,351,852
Community services	1,020,346	—	—	1,020,346
Depreciation	14,906,443	1,424,284	—	16,330,727
Total operating expenses	<u>356,429,877</u>	<u>1,633,930</u>	<u>—</u>	<u>358,063,807</u>
Operating loss	<u>(30,540,189)</u>	<u>(1,395,530)</u>	<u>—</u>	<u>(31,935,719)</u>
Nonoperating revenues (expenses):				
Interest expense	—	(212,400)	—	(212,400)
Investment income	5,118,550	191	—	5,118,741
Appropriations from Shelby County	26,816,001	—	—	26,816,001
Other	4,195,408	—	—	4,195,408
Transfers in (out)	(17,014,898)	17,014,898	—	—
Total nonoperating revenues, net	<u>19,115,061</u>	<u>16,802,689</u>	<u>—</u>	<u>35,917,750</u>
Increase (decrease) in net position	<u>(11,425,128)</u>	<u>15,407,159</u>	<u>—</u>	<u>3,982,031</u>
Net position, beginning of year	243,236,287	—	—	243,236,287
Net position, end of year	<u>\$ 231,811,159</u>	<u>15,407,159</u>	<u>—</u>	<u>247,218,318</u>

\* Shelby County Health Care Corporation and other subsidiaries includes the entities Shelby County Health Care Corporation, Regional Med Extended Care Hospital LLC, Regional One Foundation and Regional One Properties, Inc.

See accompanying independent auditors' report.

**SHELBY COUNTY HEALTH CARE CORPORATION**

(A Component Unit of Shelby County, Tennessee)

Combining Schedule – Statement of Cash Flows

Year ended June 30, 2015

	<b>Shelby County Health Care Corporation and other Subsidiaries*</b>	<b>Shelby County Health Care Properties, Inc.</b>	<b>Eliminations</b>	<b>Combined</b>
Cash flows from operating activities:				
Receipts from and on behalf of patients and third-party payors	\$ 335,009,290	—	—	335,009,290
Other cash receipts	25,309,908	298,003	—	25,607,911
Payments to suppliers	(208,344,939)	(49,950)	—	(208,394,889)
Payments to employees and related benefits	(180,016,276)	—	—	(180,016,276)
Net cash (used in) provided by operating activities	(28,042,017)	248,053	—	(27,793,964)
Cash flows from noncapital financing activity:				
Appropriations received from Shelby County	26,816,000	—	—	26,816,000
Net cash provided by noncapital financing activity	26,816,000	—	—	26,816,000
Cash flows from capital and related financing activities:				
Capital expenditures	(11,893,966)	—	—	(11,893,966)
Proceeds from pledges	22,169	—	—	22,169
Proceeds from sale of capital assets	31,398	—	—	31,398
Interest payments	—	(269,625)	—	(269,625)
Net cash used in capital and related financing activities	(11,840,399)	(269,625)	—	(12,110,024)
Cash flows from investing activities:				
Purchases of investments	(238,329,755)	—	—	(238,329,755)
Proceeds from sale of investments	249,085,424	—	—	249,085,424
Investment in joint ventures	(1,300,000)	—	—	(1,300,000)
Investment income proceeds	3,345,720	—	—	3,345,720
Net cash provided by investing activities	12,801,389	—	—	12,801,389
Net decrease in cash and cash equivalents	(265,027)	(21,572)	—	(286,599)
Cash and cash equivalents, beginning of year	9,981,833	583,710	—	10,565,543
Cash and cash equivalents, end of year	\$ 9,716,806	562,138	—	10,278,944

\* Shelby County Health Care Corporation and other subsidiaries includes the entities Shelby County Health Care Corporation, Regional Med Extended Care Hospital LLC, Regional One Foundation and Regional One Properties, Inc.

See accompanying independent auditors' report.

**SHELBY COUNTY HEALTH CARE CORPORATION**

(A Component Unit of Shelby County, Tennessee)

Combining Schedule – Statement of Cash Flows

Year ended June 30, 2014

	<b>Shelby County Health Care Corporation and other Subsidiaries*</b>	<b>Shelby County Health Care Properties, Inc.</b>	<b>Eliminations</b>	<b>Combined</b>
Cash flows from operating activities:				
Receipts from and on behalf of patients and third-party payors	\$ 301,167,031	—	—	301,167,031
Other cash receipts	21,721,086	89,397	—	21,810,483
Payments to suppliers	(178,271,828)	(1,444,190)	—	(179,716,018)
Payments to employees and related benefits	(156,180,748)	—	—	(156,180,748)
Net cash used in operating activities	<u>(11,564,459)</u>	<u>(1,354,793)</u>	<u>—</u>	<u>(12,919,252)</u>
Cash flows from noncapital financing activity:				
Appropriations received from Shelby County	26,816,001	—	—	26,816,001
Net cash provided by noncapital financing activity	<u>26,816,001</u>	<u>—</u>	<u>—</u>	<u>26,816,001</u>
Cash flows from capital and related financing activities:				
Capital expenditures	(6,373,786)	(24,536,163)	—	(30,909,949)
Proceeds from new market tax credit	—	26,550,000	—	26,550,000
Proceeds from pledges	3,195,408	—	—	3,195,408
Interest payments	—	(75,525)	—	(75,525)
Net cash (used in) provided by capital and related financing activities	<u>(3,178,378)</u>	<u>1,938,312</u>	<u>—</u>	<u>(1,240,066)</u>
Cash flows from investing activities:				
Issuance of notes receivable	(19,221,600)	—	—	(19,221,600)
Purchases of investments	(179,509,769)	—	—	(179,509,769)
Proceeds from sale of investments	176,002,728	—	—	176,002,728
Investment in joint ventures	—	(992,607)	—	(992,607)
Investment income proceeds	6,158,850	191	—	6,159,041
Intercompany transfer	(992,607)	992,607	—	—
Net cash (used in) provided by investing activities	<u>(17,562,398)</u>	<u>191</u>	<u>—</u>	<u>(17,562,207)</u>
Net (decrease) increase in cash and cash equivalents	<u>(5,489,234)</u>	<u>583,710</u>	<u>—</u>	<u>(4,905,524)</u>
Cash and cash equivalents, beginning of year	15,471,067	—	—	15,471,067
Cash and cash equivalents, end of year	<u>\$ 9,981,833</u>	<u>583,710</u>	<u>—</u>	<u>10,565,543</u>

\* Shelby County Health Care Corporation and other subsidiaries includes the entities Shelby County Health Care Corporation, Regional Med Extended Care Hospital LLC, Regional One Foundation and Regional One Properties, Inc.

See accompanying independent auditors' report.

**SHELBY COUNTY HEALTH CARE CORPORATION**

(A Component Unit of Shelby County, Tennessee)

Roster of Management Officials and Board Members

June 30, 2015

(Unaudited)

**Management Officials**

Reginald Coopwood, M.D., President and CEO

Eric Benink, M.D., Senior Vice President/Chief Medical Officer

Pam Castleman, MSN, Senior Vice President/Chief Nursing Officer

Sarah Colley, Senior Vice President

Susan Cooper, RN, MSN, FAAN, Senior Vice President/Chief Integration Officer

Jackie Lucas, FACHE, Senior Vice President/CIO

Tammie Ritchey, CFRE, Vice President of Development/Foundation Executive Director

Robert Sumter, Ph.D., Executive Vice President/COO

Tish Towns, FACHE, Senior Vice President, External Relations

Rick Wagers, MBA, Senior Executive Vice President/CFO

Monica Wharton, ESQ, Senior Vice President/Chief Legal Counsel

**Board Members**

Reginald W. Coopwood, M.D.

David Popwell

Commissioner Reginald Milton

Phil Shannon

Anthony Tate

Scott McCormick

Brenda Hardy, M.D.

Scot Lenoir

John Vergos

Ken Brown, M.D.

Bill Evans, M.D.

Tyrone Burroughs

George Maish, M.D.

James Freeman, M.D.

Edith Kelly-Green

Pam Brown

See accompanying independent auditors' report.