West Tennessee Healthcare and Related Affiliates

Financial Statements and Supplemental Schedules as of and for the Years Ended June 30, 2015 and 2014, and Independent Auditors' Report

DIXON HUGHES GOODMAN LLP

West Tennessee Healthcare and Related Affiliates

Audited Financial Statements and Supplemental Schedules

Years Ended June 30, 2015 and 2014

Contents

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REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
West Tennessee Healthcare and Related Affiliates

Report on the Financial Statements

We have audited the accompanying financial statements of West Tennessee Healthcare and Related Affiliates (the "Company"), as of and for the years ended June 30, 2015 and 2014, and the related notes to financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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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 financial position of the Company as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

New Accounting Pronouncements

As discussed in Note 2 to the financial statements, during the year ended June 30, 2015, the Company adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As a result of adopting these standards, the Company restated net position as of July 1, 2014, to record the net pension liability and the related deferred inflows and outflows of resources.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 10 and the pension and post-employment benefits information on pages 52 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The roster of governance and management officials on page 11 and the deductions from gross patient service revenues information on pages 56 through 57 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Memphis, Tennessee
September 30, 2015, except for the
schedule of expenditures of federal
awards and state financial assistance, for
which the date is December 11, 2015

This section of the financial statements of West Tennessee Healthcare and Related Affiliates (the "Company") presents management's analysis of the Company's financial performance during the fiscal years ended June 30, 2015 and 2014.

Financial Highlights

2015

- The Company's results from operations, including interest expense, exceeded budgeted expectations in 2015 with an operating margin of 2.2%.

- Total operating revenues were 6% above the prior year, an increase of approximately $35 million. The increase was due to several factors, most notably improved volumes at the flagship hospital, affiliate hospitals and West Tennessee Rehabilitation Center and a full year of expanded and realigned services.

- Total operating expenses were up 4%, with a 4% increase in Salaries and Benefits expense resulting from routine staffing, an annual merit increase effective September 2014 and a fiscal year-end employee bonus. A 6% increase in supply and other costs was driven primarily by increase in medical oncology volumes.

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

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

- Net position decreased during fiscal year 2015 by $79.5 million or 14%. This decrease was caused by the net pension liability of $95 million that was recognized by the Company during the year with the adoption of new governmental accounting standards, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* Among other requirements under the standards, government employers have to record a net pension liability in their financial statements for defined benefit plans that is based on fiduciary plan net position rather than on plan funding. The decrease in net position as a result of adopting new standards was offset by the Company's financial performance in fiscal year 2015, which increased net position by $15.5 million.

2014

- The Company's results from operations, including interest expense, fell below budgeted expectations in 2014 with an operating margin of 1%.

- Total operating revenues were 2% above the prior year, an increase of approximately $14.9 million. The increase was due to several factors, most notably an increase in surgery volumes for the flagship hospital and having a full year of volume related to new and expanded services.

- Total expenses were up 4% when compared to the prior year, with a 3% increase in Salaries and Benefits expense. The Company experienced a 7% increase in Supply and Other administrative costs driven primarily by the opening of the Kirkland Cancer Center and transition costs related to a realignment of services in Gibson County where three small community hospitals were replaced with one hospital, an outpatient medical center and an emergency department satellite location of the flagship hospital. The Company also had over $8 million in non-recurring costs with a loss in 2014 of $5.9 million due to a write-down in value of a leased office building vacated during the year and $2.7 million in non-recurring costs for a voluntary retirement incentive program.

- The Company's non-operating revenue was up significantly with improved market conditions for the Company's investments.

Overview of the Financial Statements

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

Required Basic Financial Statements

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

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

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

Financial Analysis

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

Table A-1
Condensed Statements of Net Position (in millions of dollars)

	June 30 2015	June 30 2014	June 30 2013	Dollar Increase (Decrease) 2014-2015	Percentage Increase (Decrease) 2014-2015	Dollar Increase (Decrease) 2013-2014	Percentage Increase (Decrease) 2013-2014
Current assets	$ 158.5	$ 158.9	$ 148.5	$ (0.4)	0%	$ 10.4	7%
Capital assets, net	362.2	385.1	391.8	(22.9)	(6)%	(6.7)	(2)%
Other non-current assets	390.4	367.0	347.7	23.4	6%	19.3	6%
Total assets	911.1	911.0	888.0	0.1	0%	23.0	3%
Deferred outflows of resources	53.9	5.4	6.0	48.5	898%	(0.6)	(10)%
Total assets and deferred outflows	$ 965.0	$ 916.4	$ 894.0	$ 48.6	5%	$ 22.4	3%
Current liabilities	$ 71.2	$ 63.4	$ 72.1	$ 7.8	12%	$ (9.4)	(13)%
Non-current liabilities	394.8	284.6	289.5	110.2	39%	(4.2)	(1)%
Total liabilities	466.0	348.0	361.6	118.0	34%	(13.6)	(4)%
Deferred inflows of resources	10.1	-	-	10.1	100.0%	-	0%
Net position:							
Unrestricted	363.4	421.7	381.1	(58.3)	(14)%	40.6	11%
Invested in capital assets, net of related financing	114.8	119.7	124.4	(4.9)	(4)%	(4.7)	(4)%
Restricted	10.7	27.0	26.9	(16.3)	(60)%	0.1	0%
Total net position	488.9	568.4	532.4	(79.5)	(14)%	36.0	7%
Total liabilities and net position	$ 965.0	$ 916.4	$ 894.0	$ 48.6	5%	$ 22.4	3%

As indicated in Table A-1, net position decreased during fiscal year 2015 by $79.5 million or 14%. This decrease was caused by the net pension liability of $95 million that was recognized by the Company during the year, offset by the Company's increase in net position of $15.5 million as a result of financial performance in fiscal year 2015.

1. Total assets remained relatively flat while deferred outflows of resources increased by $48.5 million due to charges on refundings of $30.1 million, $17.1 million related to pension contributions and differences between expected and actual pension experience of $1.3 million.

2. Total liabilities increased by $118 million or 34% due to the recognition of the net pension liability and issuance of bonds during the year.

As indicated in Table A-1, net position increased from fiscal 2013 by $36 million or 7% with the Company's financial performance in fiscal year 2014.

1. Total assets increased by $23 million or 3% with significant growth in the value of the investment portfolio and growth in accounts receivable arising from volume and revenue growth.

2. Total liabilities decreased by $13.6 million or 4% due to regular debt payments and routine activity.

Table A-2
Condensed Statements of Revenues and Expenses, and Changes in Net Position (in millions of dollars)

	Year Ended June 30			Dollar Increase (Decrease)	Percentage Increase (Decrease)	Dollar Increase (Decrease)	Percentage Increase (Decrease)
	2015	2014	2013	2014-2015	2014-2015	2013-2014	2013-2014
Net patient service revenues	$ 626.8	$ 588.2	$ 569.1	$ 38.6	7%	$ 19.1	3%
Other operating revenues	37.0	40.7	44.9	(3.7)	(9)%	(4.2)	(9)%
Total operating revenues	663.8	628.9	614.0	34.9	6%	14.9	2%
Salaries and benefits	341.8	327.7	319.7	14.1	4%	8.0	3%
Supplies and other expenses	243.9	230.0	215.0	13.9	6%	15.0	7%
Depreciation and amortization	45.3	47.7	48.0	(2.4)	(5)%	(0.3)	(1)%
Total expenses	631.0	605.4	582.7	25.6	4%	22.7	4%
Income from operations	32.8	23.5	31.3	9.3	40%	(7.8)	(25)%
Net nonoperating revenues and expenses	(17.3)	12.5	(2.5)	(29.8)	(238)%	15.0	(600)%
Change in net position	15.5	36.0	28.8	(20.5)	(57)%	7.2	25%
Beginning net position	568.4	532.4	503.6	36	7%	28.8	6%
Cumulative effect of change in accounting principle	(95.0)	-	-	(95.0)	0%	-	0%
Beginning net position, as restated	473.4	532.4	503.6	59.0	11%	28.8	6%
Ending net position	$ 488.9	$ 568.4	$ 532.4	$ (79.5)	(14)%	$ 36.0	(7)%

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

Operating revenues increased by $34.9 million or 6% from 2014 to 2015.

1. Patient revenue improved with an increase in inpatient and rehabilitation volumes and a full year of services at Kirkland Cancer Center.

2. The Company earned $2.7 million in incentive payments for the meaningful use of electronic health records.

Operating revenues increased by $14.9 million or 2% from 2013 to 2014.

1. The increase was driven primarily by improved surgery volumes and opening of Kirkland Cancer Center, and offset by reduced impatient volume overall.
2. The Company earned $5.5 million in incentive payments for the meaningful use of electronic health records.

Operating expense increased by $25.6 million or 4% when comparing 2014 to 2015.

1. Total salaries and benefits expense increased by $14.1 million or 4% due to several factors, most notably routine employee rate adjustments awarded in September 2014 and the fiscal year-end employee bonus.
2. Total supply and other expenses for the Company increased by $13.9 million or 6% due to increase in medical oncology volumes.

Operating expense increased by $22.7 million or 4% when comparing 2014 to 2013.

1. Total salaries and benefits expense increased by $8 million or 3% due to several factors, most notably due to $2.7 million in salary expenses related to a voluntary retirement initiative and an increase in FTEs related to new and expanded services, compounded by higher medical, dental and vision claims.
2. The Company recognized a loss in fiscal year 2014 of $5,946,138 due to a write-down in value of a building formerly leased to the Jackson Clinic. During the fiscal year, the building became vacant. The amount of the reduction in value relates to portions of the building determined to be unusable through space planning work conducted during the fiscal year.
3. Other expenses increased by $12.7 million or 14% with the opening of Kirkland Cancer Center and transition costs related to a realignment of services in Gibson County where two inpatient facilities were closed and volumes declined in advance of the closure.

Capital Assets and Long-Term Debt

Capital Assets

As of June 30, 2015, the Company had $362.2 million invested in a variety of capital assets, as reflected in Table A-3, which represents a net decrease (additions, disposals and depreciation) of $22.9 million or 6% from the end of last year.

Management's Discussion and Analysis (continued)

Table A-3
Capital Assets (in millions of dollars)

	June 30 2015	June 30 2014
Land and land improvements	$ 48.7	$ 48.8
Buildings	306.9	303.9
Equipment	629.9	609.3
Construction in progress	4.0	7.7
Total capital assets	989.5	969.7
Accumulated depreciation	(627.3)	(584.6)
Capital assets, net	$ 362.2	$ 385.1

Long-Term Debt

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

As of June 30, 2015, the Company had $284 million in outstanding long-term debt and as of June 30, 2014, the Company had $294.1 million in outstanding long-term debt. This represents a net decrease of $10.1 million over the prior fiscal year.

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

Future Outlook

The 2015 fiscal year was an improvement from recent years as the impact of recent initiatives to realign services and grow business resulted in financial improvement. The Company continues to develop strategies to respond to changes in the healthcare industry and position itself for the future. The Board of Trustees and management continue to have a positive outlook for the Company, maintaining a commitment to high quality care and an exceptional patient experience, while pursuing business strategies that will strengthen its financial position and ensure its ability to continue to fulfill its mission.

Requests for Information

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

West Tennessee Healthcare and Related Affiliates

Roster of Governance and Management Officials

June 30, 2015

Governance Officials – Board of Trustees

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

Management Officials

Bobby Arnold	Chief Executive Officer
James Ross	Chief Operating Officer, Vice-President
Jeff Blankenship	Chief Financial Officer, Vice-President
Currie Higgs	General Counsel, Vice-President
Amy Griffin	Compliance Officer, Vice-President
Dr. David Roberts	Chief Medical Officer, Vice-President
Jeff Frieling	Chief Information Officer, Vice-President
Wendie Carlson	Vice-President of Human Resources
Dr. Lisa Piercey	Vice-President of Physician Services
Tina Prescott	Chief Nursing Officer, Vice-President
Catherine Kwasigroh	Vice-President of Hospital Services
Karen Utley	Vice-President of Hospital Services
Deann Montchal	Vice-President of Hospital Services

West Tennessee Healthcare and Related Affiliates

Statements of Net Position

June 30, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	$ 34,564,905	$ 32,735,522
Accounts receivable:		
Patient accounts receivable, less allowances for doubtful accounts of approximately $30,937,000 and $32,925,000	101,655,153	102,175,449
Other	3,047,140	4,748,264
Total accounts receivable	104,702,293	106,923,713
Inventories	6,364,415	6,387,918
Prepaid expenses	7,934,626	7,153,657
Restricted assets - current portion	4,951,929	5,660,068
Total current assets	158,518,168	158,860,878
Restricted assets:		
Funded depreciation - buildings	84,830,022	58,617,646
Funded depreciation - equipment	45,611,078	31,517,310
Debt service reserve fund	5,760,394	21,369,360
Project building fund	86,120,838	85,830,289
Operating reserve fund	119,430,911	119,040,758
Contingency fund	9,379,073	9,347,342
High technology fund	11,135,656	11,097,983
	362,267,972	336,820,688
Other assets:		
Goodwill	9,242,171	9,569,318
Wellness Center loan receivable	16,872,584	16,872,584
Other	1,923,594	3,774,341
	28,038,349	30,216,243
Capital assets:		
Land and land improvements	48,730,955	48,841,591
Buildings	306,871,971	303,854,813
Fixed equipment	210,101,784	208,036,305
Moveable equipment	419,859,863	401,299,135
Construction in progress	3,994,429	7,656,848
	989,559,002	969,688,692
Accumulated depreciation	(627,328,960)	(584,557,697)
	362,230,042	385,130,995
Total assets	911,054,531	911,028,804
Deferred outflows of resources		
Deferred charges on refundings	35,553,922	5,398,807
Pension contributions subsequent to measurement date	17,110,003	-
Difference between expected and actual pension experience	1,256,979	-
Total deferred outflows of resources	53,920,904	5,398,807
Total assets and deferred outflows of resources	$ 964,975,435	$ 916,427,611

See accompanying notes.

	2015	2014
Liabilities, deferred inflows of resources and net position		
Current liabilities:		
Accounts payable	$ 20,172,316	$ 14,334,724
Accrued compensation and related expenses	28,070,460	24,516,638
Accrued interest expense	2,910,258	4,035,955
Other accrued expenses	7,383,558	8,481,486
Estimated third-party settlements	6,393,198	6,956,833
Long-term debt due within one year	6,270,000	5,144,999
Total current liabilities	71,199,790	63,470,635
Other liabilities:		
Long-term debt, less amounts due within one year	295,591,110	284,592,278
Net pension liability	99,231,256	-
Total other liabilities	394,822,366	284,592,278
Total liabilities	466,022,156	348,062,913
Deferred inflows of resources:		
Actual vs. projected earnings on pension plan investments	10,063,985	-
Total deferred inflows of resources	10,063,985	-
Net position:		
Unrestricted	363,341,894	421,630,522
Net investment in capital assets	114,835,077	119,704,749
Restricted for debt service	10,712,323	27,029,427
Total net position	488,889,294	568,364,698
Total liabilities, deferred inflows of resources and net position	$ 964,975,435	$ 916,427,611

West Tennessee Healthcare and Related Affiliates

Statements of Revenues and Expenses and Changes in Net Position

For the Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues		
Net patient service revenues, net of provision for bad debts of $64,861,482, in 2015 and $70,639,945 in 2014	$ 626,850,504	$ 588,190,053
Other revenues	36,976,198	40,676,644
Total operating revenues	663,826,702	628,866,697
Operating expenses		
Salaries and benefits	341,766,882	327,663,805
Supplies and other	243,915,690	230,027,196
Depreciation and amortization	45,362,267	47,627,135
Total operating expenses	631,044,839	605,318,136
Operating income	32,781,863	23,548,561
Nonoperating revenues (expenses)		
Investment income	1,959,273	31,169,994
Interest expense	(16,671,919)	(17,248,129)
Bond refunding costs	(1,655,981)	-
Contributions to affiliated entities	(913,613)	(1,461,806)
Nonoperating revenues (expenses), net	(17,282,240)	12,460,059
Increase in net position	15,499,623	36,008,620
Net position at beginning of year, before restatement	568,364,698	532,356,078
Cumulative effect of change in accounting principle	(94,975,027)	-
Net position at beginning of year, as restated	473,389,671	532,356,078
Net position at end of year	$ 488,889,294	$ 568,364,698

See accompanying notes.

West Tennessee Healthcare and Related Affiliates

Statements of Cash Flows

For the Years Ended June 30, 2015 and 2014

	2015	2014
Operating activities		
Receipts from third-party payors and patients	$ 629,071,924	$ 579,607,617
Receipts from other operations	36,976,198	40,676,644
Payments to suppliers	(236,904,172)	(229,694,266)
Payments to employees	(343,034,804)	(330,739,749)
Net cash provided by operating activities	86,109,146	59,850,246
Noncapital financing activity		
Contributions to affiliates	(913,613)	(959,202)
Net cash used in noncapital financing activity	(913,613)	(959,202)
Investing activities		
Interest, dividends, and realized gain on investments	4,951,930	5,143,351
Net change in restricted assets	(36,660,843)	5,708,759
Net cash (used in) provided by investing activities	(31,708,913)	10,852,110
Capital and related financing activities		
Purchases of capital assets	(23,110,523)	(47,569,697)
Proceeds from issuance of long-term debt	205,965,000	-
Repayment of long-term debt	(216,040,000)	(4,932,434)
Interest paid on long-term debt	(16,815,733)	(16,446,522)
Bond refunding costs	(1,655,981)	-
Net cash used in capital and related financing activities	(51,657,237)	(68,948,653)
Increase in cash and cash equivalents	1,829,383	794,501
Cash and cash equivalents at beginning of year	32,735,522	31,941,021
Cash and cash equivalents at end of year	$ 34,564,905	$ 32,735,522
Reconciliation of operating income to net cash provided by operating activities		
Income from operations	$ 32,781,863	$ 23,548,561
Adjustments to reconcile operating income to net cash provided by operating activities:		
Pension expense	12,288,259	-
Depreciation	45,035,119	47,301,408
Impairment loss	-	5,946,139
Loss on disposals of capital assets	976,357	525,121
Amortization	318,024	325,727
Changes in operating assets and liabilities		
Accounts receivable	2,221,420	(8,584,438)
Inventory and prepaid expenses	(757,466)	(546,715)
Other assets	1,850,746	151,159
Accounts payable and accrued expenses	9,068,462	(11,758,925)
Estimated third-party settlements	(563,635)	2,942,209
Deferred outflows - contributions to pension plan	(17,040,046)	-
Deferred outflows - contributions to 415m plan	(69,957)	-
Net cash provided by operating activities	$ 86,109,146	$ 59,850,246
Supplemental schedule of noncash investing activities		
Change in fair value of investments	$ (2,992,657)	$ 26,026,643
Capital contribution to affiliate	$ -	$ 502,604

See accompanying notes.

1. Significant Accounting Policies

Organization and Basis of Presentation

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

Proprietary Fund Accounting

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

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform with the classifications used in 2015. These reclassifications had no impact on the Company's financial position or results of operations.

Cash and Cash Equivalents

The Company considers temporary cash investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Investments

The Company's investments are reported at fair value in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Company invests in government bonds, short-term money market investments, equity securities and alternative investments that are in accordance with the Company's investment policy.

1. Significant Accounting Policies (continued)

Investments (continued)

Investments include the Company's ownership interest in various limited partnerships and investment funds (collectively referred to as Funds) that, in turn, invest the capital of the Funds in other funds.

These Funds have no significant liabilities, and the equity of the Funds is based upon the fair value of the financial instruments held. These Funds invest in real estate, hedge funds, and limited partnerships. The fair value of these investments is determined by the underlying asset's manager or independent appraisals (in the case of real estate). Due to inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. Realized and unrealized gains and losses are included in investment income in the accompanying statements of revenues and expenses and changes in net position.

Inventories

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

Funded Depreciation

The Company reserves funds for future purchases of capital assets. Investment earnings on funded depreciation funds were $306,144 and $8,242,447 for the years ended June 30, 2015 and 2014, respectively, and are included in investment income in the accompanying statements of revenues and expenses and changes in net position.

Goodwill and Other Intangible Assets

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

Capital Assets

Property, plant, and equipment are recorded on the basis of cost. Provisions for depreciation are computed by the straight-line method based on the estimated useful lives of the assets.

1. Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as outflow of resources (expense) until then. In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

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

Defined Benefit Pension Plans

For purposes of measuring the 2015 net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Company's defined benefit pension plans and additions to/deductions from the Company's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Prior to the adoption of the provisions of GASB Statement No. 68 in 2015, contributions to the pension plans were actuarially determined and approximated annual pension expense. (See Note 2.)

Bond Original Issue Discounts or Premiums

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

Patient Accounts Receivable

Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third-party payor programs. The bad debt allowance is estimated based upon the age of the

1. Significant Accounting Policies (continued)

Patient Accounts Receivable (continued)

account, prior experience and any unusual circumstances which affect the collectability. The Company does not require collateral or other security for patient accounts receivable and routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care and Community Benefit

As a community provider, the Company's policy is to accept all patients regardless of their ability to pay. Management believes that substantially all the uncollected amounts are due to patients' inability to pay. Therefore, all amounts which are not collected, other than third-party payor contractual adjustments, are recorded as charity care and excluded from net patient service revenues. The community benefit provided through charity care, including provisions for bad debts, was $95,524,996 and $101,969,577, based on gross charges, for the years ended June 30, 2015 and 2014, respectively.

EHR Incentive Payments

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

The Company accounts for HITECH incentive payments under a grant accounting model. Income from Medicare and Medicaid incentive payments is recognized ratably as revenue as the Company has demonstrated that it complied with the meaningful use criteria over the applicable compliance period. The Company recognized revenue from Medicare and Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling $2,682,725 and $5,489,937 for the years ended June 30, 2015 and 2014, respectively, are included in other revenues in the accompanying statements of revenues and expenses and changes in net position. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using cost report data that is subject to audit. Additionally, the Company's compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Changes to recorded estimates could be significant and are recognized in the period they become known.

1. Significant Accounting Policies (continued)

Net Patient Service Revenues

Net patient service revenues are reported at the net amounts billed to patients, third-party payors and others for services rendered, including an estimated provision for bad debts and estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Changes in estimated provisions and final settlements are included in net patient service revenues. For the fiscal years ended June 30, 2015 and 2014, changes in estimated settlements resulted in a decrease in revenues of approximately $1,885,615 and of $2,659,233, respectively.

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

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

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

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

Charges at the Company's established billing rates (gross patient service charges) related to patients covered by Medicare, Medicaid, and TennCare programs were 64% and 62% of gross patient service revenues for the fiscal years ended 2015 and 2014, respectively.

1. Significant Accounting Policies (continued)

Net Patient Service Revenues (continued)

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

	Year Ended June 30	
	2015	2014
Medicare	$ 691,168,975	$ 559,410,645
TennCare	220,161,999	187,593,924
Other	366,561,662	322,223,860
Bad debts	64,861,482	70,639,945
	$ 1,342,754,118	$ 1,139,868,374

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

Essential access, critical access, Federal Medical Percentage Assistance and Medicaid Disproportionate Share payments of approximately $7,907,681 and $7,631,110 received from TennCare/Medicaid were included in net revenues during the years ended June 30, 2015 and 2014, respectively.

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

1. Significant Accounting Policies (continued)

Operating Revenues

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

Federal Income Taxes

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

Recent Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. Statement No. 72 is effective for fiscal years beginning after June 30, 2015, (fiscal year 2016) and should be applied retrospectively, unless the restatement of all prior periods is not practical. Early adoption is encouraged. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which identifies, in the context of the current government financial reporting environment, the hierarchy of generally accepted accounting principles (“GAAP”). This statement supersedes GASB Statement No. 55. The statement is effective for fiscal years beginning after June 30, 2015, (fiscal year 2016) and will result in a retrospective application of an accounting pronouncement in the initial year of application. Earlier application is permitted. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event

1. Significant Accounting Policies (continued)

Recent Accounting Pronouncements (continued)

that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The sources of authoritative GAAP are categorized as follows:

- Category A – officially established accounting principles (GASB Statements).
- Category B – GASB Technical Bulletins, GASB Implementation Guides, and literature of the AICPA cleared by the GASB.

The adoption of the above standards is not expected to have a material effect on the Company's financial statements.

2. New Accounting Standards

During fiscal year 2015, the Company implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* which apply to government employers that offer pension benefits through a pension trust or an equivalent arrangement. They replace GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* and GASB Statement No. 50, *Pension Disclosures,* for these employers. The standards are intended to improve the usefulness of financial statements in assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measurement of pension expense, as well as explanatory disclosures in the notes to the financial statements and required supplemental information. Among other requirements under the standards, government employers will have to record a net pension liability in their financial statements for defined benefit plans that is based on fiduciary plan net position rather than plan funding. (See Note 10).

Due to certain information prior to the measurement date of June 30, 2014, not being available to the Company's actuary, the Company was not able to restate prior periods presented. The following table summarizes the effect of the implementation of GASB Statement No. 68 on the statement of changes in net position for the year ended June 30, 2015:

Net position at June 30, 2014, as previously reported	$ 568,364,698
Cumulative effect of change in accounting principle	94,975,027
Net position at June 30, 2014, as restated	$ 473,389,671

2. Restricted Assets

The Company, as authorized by the Board of Trustees, maintains checking accounts necessary for daily operations, deposits for the contingency fund, and deposits and investments for the funded depreciation funds. The bond funds are maintained in accordance with the bond indentures related to the Series 2008 $318,980,000 Hospital Revenue Refunding and Improvement Bonds and the Series 2015 $205,965,000 Hospital Revenue Refunding Bonds (see Note 8). The interest fund and bond sinking fund are maintained for the payment of bond principal and interest. A debt service reserve fund was created under the existing indenture in connection with the issuance of the Series 2008 Bonds and remains in place to secure the remaining Series 2008 bonds. The debt service reserve fund is maintained to make up any deficiencies in the interest fund and bond sinking fund. No debt service reserve fund was required in connection with the Series 2015 bonds. Certain amounts comprising the interest fund, bond sinking fund and debt service reserve fund are included in the current portion of restricted assets in the accompanying statements of net position based on debt service requirements during the following fiscal year. The Company first applies restricted resources when expenses are incurred for purposes for which both restricted and unrestricted assets are available.

The Company's investments and deposits classified as restricted assets are categorized to give an indication of the level of risk assumed by the Company as of year-end. The Company's investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The Company invests in government and corporate bonds, equity securities, alternative investments and short-term money market investments that are in accordance with the Company's investment policy.

3. Restricted Assets (continued)

A summary of restricted assets follows:

	June 30 2015	June 30 2014
Externally restricted by bond indenture agreement – held by bond trustee:		
Cash and short-term investments	$ 10,712,323	$ 27,029,427
Internally designated for capital acquisitions:		
Cash and short-term investments	1,332,809	2,130,164
Corporate and U.S. agency bond funds	69,960,468	70,339,447
Real estate and mortgage fund	20,901,026	13,945,884
Equity securities	135,503,291	100,647,733
	227,697,594	187,063,228
Other internally designated funds for operations:		
Cash and short-term investments	45,246,377	6,152,293
U.S. government agency obligations	25,826,231	46,492,493
Real estate and mortgage fund	7,715,709	9,217,856
Equity securities	50,021,667	66,525,459
	128,809,984	128,388,101
Total restricted assets	367,219,901	342,480,756
Amounts required to meet current obligations	(4,951,929)	(5,660,068)
	$ 362,267,972	$ 336,820,688

4. Cash and Investments

At June 30, 2015 and 2014, the Company had cash and deposits as follows:

	June 30 2015	June 30 2014
Cash on hand	$ 13,177	$ 13,300
Cash insured (FDIC) or collateralized with securities held by the Company	1,551,170	2,000,000
Cash collateralized by securities held by the pledging financial institution's trust department in the Company's name or in the State of Tennessee Collateral Pool	33,000,558	30,722,222
Total	$ 34,564,905	$ 32,735,522

4. Cash and Investments (continued)

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

At June 30, 2015 and 2014, the Company had restricted assets in the amount of $57,291,509 and $35,311,884, respectively, invested in short-term investments, which include U.S. agencies and a sweep account secured by Agency securities held by the Trustee. All investments are carried at fair value.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* the Company has assessed the Custodial Credit Risk, the Concentration of Credit Risk, Credit Risk, and Interest Rate Risk of its Cash and Investments.

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

At June 30, 2015 and 2014, the Company's bank balances were not exposed to custodial credit risk since the full amount was covered by FDIC insurance or collateralized by securities held by the pledging financial institution's trust department in the Company's name or by the State of Tennessee Collateral Pool.

As of June 30, 2015 and 2014, the Company's restricted asset investments were comprised of various short-term investments, trusteed funds, corporate and U.S. agency bond funds, real estate mortgage funds, equity securities and alternative investments. Since the investments are registered in the Company's name, they are not exposed to custodial credit risk. In addition, the Company's investment policy requires that specific qualifications be met in order to represent the Company as a custodian.

4. Cash and Investments (continued)

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

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

The credit risk profile of the Company's investments as of June 30, 2015, is as follows:

	Balances as of	Rating				
Investment Type	June 30, 2015	AAA	A	AA/AA-	Aa3	NA
Restricted assets:						
Cash and short-term investments	$ 57,291,509	$ 1,824,822	$ -	$ -	$ -	$ 55,466,687
Corporate and U.S. agency bond funds	95,786,699	-	42,017,113	26,997,562	26,772,024	-
Real estate and mortgage fund	28,616,735	-	-	-	-	28,616,735
Equity securities	185,524,958	-	-	-	-	185,524,958
Total	367,219,901	1,824,822	42,017,113	26,997,562	26,772,024	269,608,380
Amounts required to meet current obligations	(4,951,929)	-	-	-	-	(4,951,929)
Total investment	$ 362,267,972	$ 1,824,822	$ 42,017,113	$ 26,997,562	$26,772,024	$264,656,451

(d) Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company's Investment Policy authorizes a strategic asset allocation that is designed to provide an optimal return over the Company's investment horizon and within the Company's risk tolerance and cash requirements.

4. Cash and Investments (continued)

The distribution of the Company's investments by maturity as of June 30, 2015, is as follows:

		Maturity				
Investment Type	Balance as of June 30, 2015	12 Months or Less	12 to 24 Months	24 to 60 Months	Greater than 60 Months	NA
Restricted assets:						
Cash and short-term investments	$ 57,291,509	$57,291,509	$ -	$ -	$ -	$ -
Corporate and U.S. agency bond funds	95,786,699	-	-	-	95,786,699	-
Real estate and mortgage fund	28,616,735	-	-	-	-	28,616,735
Equity securities	185,524,958	-	-	-	-	185,524,958
Total investments	367,219,901	57,291,509	-	-	95,786,699	214,141,693
Amounts required to meet current obligations	(4,951,929)	(4,951,929)	-	-	-	-
Total investments	$ 362,267,972	$ 52,339,580	$ -	$ -	$ 95,786,699	$ 214,141,693

For the years ended June 30, 2015 and 2014, investment income is comprised of the following:

	2015	2014
Interest, dividends, and realized gains on investments	$ 4,951,930	$ 5,143,351
Net increase (decrease) in fair value of investments	(2,992,657)	26,026,643
	$ 1,959,273	$ 31,169,994

5. Wellness Center Loan Receivable

During the fiscal year ended June 30, 2012, Jackson-Madison County General Hospital executed a promissory note with the WF Healthy Community Investment Fund, LLC in the amount of $16,872,584 for development of the Wellness Center, known as the LIFT at the Jackson Walk development in downtown Jackson. Such note bears interest at the rate of 4.25% until maturity and is payable quarterly. Beginning January 1, 2019, and continuing until the maturity date of September 30, 2041, WF Healthy Community Investment Fund, LLC will make quarterly payments of $384,000, which includes principal and interest.

6. Disaggregation of Payable Balances

Accounts payable at June 30, 2015 and 2014, consisted of the following:

	2015	2014
Due to vendors	$ 18,330,174	$ 12,906,443
Due to patients	1,397,947	980,512
Other	444,195	447,769
Total accounts payable	$ 20,172,316	$ 14,334,724

Other accrued expenses at June 30, 2015 and 2014, consisted of the following:

	2015	2014
Self-insured professional liability	$ 3,403,974	$ 3,256,671
Self-insured employee health claims liability	3,713,000	3,598,000
Other	266,584	1,626,815
Total other accrued expenses	$ 7,383,558	$ 8,481,486

7. Capital Assets

Capital assets activity for the years ended June 30, 2015 and 2014, consisted of the following:

	Balance at June 30, 2014	Additions	Transfers	Reductions	Balance at June 30, 2015
Land	$ 33,661,204	$ 134,834	$ 18,014	$ (243,000)	$ 33,571,052
Land improvements	15,180,387	6,585	47,931	(75,000)	15,159,903
Building	303,854,813	48,513	2,971,184	(2,539)	306,871,971
Equipment	609,335,440	15,741,654	7,495,446	(2,610,893)	629,961,647
Subtotal	962,031,844	15,931,586	10,532,575	(2,931,432)	985,564,573
CIP	7,656,848	7,178,937	(10,532,575)	(308,781)	3,994,429
Total	969,688,692	23,110,523	-	(3,240,213)	989,559,002
Accumulated depreciation	(584,557,697)	(45,035,119)	-	2,263,856	(627,328,960)
Net capital assets	$ 385,130,995	$ (21,924,596)	$ -	$ (976,357)	$ 362,230,042

7. Capital Assets (continued)

	Balance at June 30, 2013	Additions	Transfers	Reductions	Balance at June 30, 2014
Land	$ 32,263,245	$ 1,479,182	$ -	$ (81,223)	$ 33,661,204
Land improvements	14,621,575	16,992	565,803	(23,983)	15,180,387
Building	287,318,752	822,709	27,616,929	(11,903,577)	303,854,813
Equipment	576,964,980	20,125,968	19,076,300	(6,831,808)	609,335,440
Subtotal	911,168,552	22,244,851	47,259,032	(18,840,591)	962,031,844
CIP	30,390,343	25,124,846	(47,259,032)	(599,308)	7,656,848
Total	941,558,895	47,569,697	-	(19,439,899)	969,688,692
Accumulated depreciation	(549,722,325)	(47,301,408)	-	12,466,036	(584,557,697)
Net capital assets	$ 391,836,570	$ 268,289	$ -	$ (6,973,863)	$ 385,130,995

The Company recognized a loss in fiscal year 2014 of $5,946,139 due to write-down in value of a building formerly leased to the Jackson Clinic. During 2014, the building became vacant. The amount of the reduction in value relates to portions of the building determined to be unusable through space planning work conducted during 2014. The impairment loss is included in supplies and other expense in the accompanying 2014 statement of revenues and expenses and changes in net position.

Depreciation is computed by applying the straight-line method over the estimated remaining useful lives of buildings and improvements (10 to 40 years) and equipment (4 to 20 years). Assets under capital leases are amortized using the straight-line method over the shorter of the estimated useful life of the assets or life of the lease term, excluding any lease renewal, unless the lease renewals are reasonably assured. Amortization expense related to assets under capital leases is included in depreciation expense. The Company's capitalization threshold is $1,000 and a minimum useful life of 2 years. Depreciation expense totaled $45,035,119 and $47,301,408 during the years ended June 30, 2015 and 2014, respectively.

Construction in progress at June 30, 2015, consists of various projects for additions and renovations to the Company's facilities. The Company has outstanding contracts and other commitments related to the completion of these projects. The Company estimates approximately $9,406,000 in costs to complete these projects.

8. Long-Term Debt

Long-term debt consists of the following at June 30, 2015 and 2014:

	2015	2014
Hospital Revenue Bonds, Series 2008	$ 78,015,000	$ 294,054,999
Less unamortized bond discount	(1,092,037)	(4,317,722)
Hospital Revenue Bonds, Series 2015	205,965,000	-
Plus unamortized bond premium	18,973,147	-
	301,861,110	289,737,277
Amount due within one year, Series 2008	(1,455,000)	(5,144,999)
Amount due within one year, Series 2015	(4,815,000)	-
Total amounts due within one year	(6,270,000)	(5,144,999)
Total long-term debt less amounts due within one year	$ 295,591,110	$ 284,592,278

In April 2015, the District issued $205,965,000 of Series 2015 Hospital Revenue Refunding Bonds. The proceeds of the Series 2015 Bonds, together with other funds, were used by the District to advance refund $210,895,000 of the outstanding Series 2008 Hospital Revenue Refunding and Improvement Bonds. The advance refunding resulted in a loss of $33,567,607, which was recorded as deferred outflows of resources in the accompanying 2015 statement of net position and is being amortized over the remaining life of the Series 2008 Bonds (through 2041).

In August 2008, the District issued $318,980,000 of Series 2008 Hospital Revenue Refunding and Improvement Bonds. With the 2008 fixed rate bond issue, the District has eliminated all auction rate and variable rate debt. A portion of the proceeds was used to refund $78,350,000 of its Series 2003 Auction Rate Hospital Revenue Bonds; $48,725,000 of its Series 2006A Auction Rate Hospital Revenue Bonds; and $143,600,000 of its Series 2006B Variable Demand Rate Hospital Revenue Refunding and Improvement Bonds. A Debt Service Reserve Fund was created under the 2008 indenture. On the date of issuance of the 2008 bonds, $21,299,713 of the proceeds of the 2008 bonds were deposited in the Debt Service Reserve Fund. The remaining proceeds of the Series 2008 Bonds will be used to fund capital improvements of certain facilities of the District.

The District's revenues are pledged as collateral to the Series 2015 and Series 2008 Bonds. Interest rates range from 2.0% to 5.25% on the Series 2015 Bonds and 3.5% to 5.75% on the Series 2008 Bonds. The Company paid interest of $16,815,733 and $16,446,522 for the years ended June 30, 2015 and 2014, respectively.

8. Long-Term Debt (continued)

Long-term debt activity (excluding unamortized bond premium or discount) for the years ended June 30, 2015 and 2014, consisted of the following:

	Balance at June 30, 2013	Additions	Reductions	Balance at June 30, 2014	Additions	Reductions	Balance at June 30, 2015
Bonds payable	$ 298,950,000	$ -	$ 4,895,001	$294,054,999	$ 205,965,000	$ 216,040,000	$ 283,980,000
Other	37,434	-	37,434	-	-	-	-
Total long-term debt	$ 298,987,434	$ -	$ 4,932,435	$294,054,999	$ 205,965,000	$ 216,040,000	$ 283,980,000

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

	Principal	Interest	Total Debt Service
Fiscal years ending June 30:			
2016	$ 6,270,000	$ 13,179,528	$ 19,449,528
2017	5,885,000	13,558,106	19,443,106
2018	6,095,000	13,354,406	19,449,406
2019	6,355,000	13,091,494	19,446,494
2020	6,675,000	12,769,531	19,444,531
2021–2025	38,815,000	58,415,006	97,230,006
2026–2030	49,750,000	47,468,225	97,218,225
2031–2035	63,920,000	33,310,956	97,230,956
2036–2040	81,615,000	15,614,325	97,229,325
2041	18,600,000	839,200	19,439,200
	283,980,000	221,600,777	505,580,777
Unamortized bond premium, net	17,881,110	-	17,881,110
Total	$ 301,861,110	$ 221,600,777	$ 523,461,887

9. Leases

The Company leases equipment under various operating leases. Rent expense for all operating leases and office space was approximately $5,340,760 and $5,320,118 for the years ended June 30, 2015 and 2014, respectively. Approximate minimum future rental payments, by year and in the aggregate, under noncancellable operating leases with initial terms of one year or more are as follows at June 30, 2015:

2016	$ 4,426,249
2017	3,576,841
2018	2,884,445
2019	2,847,827
2020	2,120,181
2021-2025	5,640,075
2026-2030	5,640,073
2031-2035	2,824,102
	$ 29,959,793

10. Retirement Plans

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

The Company's net pension liability at June 30, 2015, consists of the following:

Defined benefit pension plan	$ 98,128,441
Supplemental 415(m) plan	1,102,815
	$ 99,231,256

Defined Benefit Pension Plan

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

10. Retirement Plans (continued)

Defined Benefit Pension Plan (continued)

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

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

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

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

At January 1, 2014, the census date used to measure the 2015 total pension liability, the following employees were covered by the benefit terms of the Plan:

Inactive employees or beneficiaries currently receiving benefits	1,072
Inactive employees or beneficiaries entitled to but not yet currently receiving benefits	766
Active employees	3,034

10. Retirement Plans (continued)

Defined Benefit Pension Plan (continued)

Contributions

The Company has no legal or Plan requirements to fund the Plan. Although a formal funding policy has not been established for fiscal year 2015, the Company generally makes contributions based on an amount recommended by an independent actuary calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. For the year ended June 30, 2015, the Company's average contribution rate was 8.5% of annual payroll.

Prior to fiscal year 2015, the Company established a policy of funding the end of the Plan year normal cost plus amortization of the unfunded actuarial accrued liability in level dollar amounts over a 30-year period beginning January 1, 2009, up to fully funding the accrued liability using the Projected Unit Credit Cost Method.

Net Pension Liability

The Company's net pension liability at June 30, 2015, was measured as of June 30, 2014, and the total pension liability used to calculate the 2015 net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

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

Mortality rates were based on the RP-2014 Mortality Table for males and females with adjustments for generational projections based on Scale BB, using the Entry Age Normal Cost method. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2013, to June 30, 2014.

10. Retirement Plans (continued)

Net Pension Liability (continued)

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

Asset Class	Target Allocation	Long-term expected real rate of return
Domestic equity securities	67%	7.1 – 8.5%
Fixed income securities	24%	2.7 – 4.2%
Real estate and other	8%	5.0 – 8.0%
Cash equivalents	1%	3.1%
Total	100%	

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

10. Retirement Plans (continued)

Changes in the Net Pension Liability

The net pension liability and annual pension expense for fiscal year 2015 are based on a measurement date of June 30, 2014, and a measurement period of July 1, 2013 to June 30, 2014.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	$ 291,686,806	$ 184,000,234	$ 107,686,572
Service cost	7,026,043	-	7,026,043
Interest	18,956,129	-	18,956,129
Difference between expected and actual experience	1,466,476	-	1,466,476
Contributions – employer	-	12,992,015	(12,992,015)
Net investment income	-	24,479,564	(24,479,564)
Benefit payments	(14,386,651)	(14,386,651)	-
Administrative expense	-	(464,800)	464,800
Net changes	13,061,997	22,620,128	(9,558,131)
Balances at June 30, 2015	$ 304,748,803	$ 206,620,362	$ 98,128,441

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

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net pension liability	$ 140,953,650	$ 98,128,441	$ 62,660,211

10. Retirement Plans (continued)

Changes in the Net Pension Liability (continued)

For the year ended June 30, 2015, the Company recognized pension expense of $12,240,890. At June 30, 2015, the Company reported deferred outflows of resources and deferred inflows of resources related to the Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 1,256,979	$ -
Net difference between projected and actual earnings on Plan investments	-	10,063,985
	$ 1,256,979	$ 10,063,985

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

Year ended June 30:	
2016	$ (2,306,499)
2017	(2,306,499)
2018	(2,306,499)
2019	(2,306,499)
2020	209,497
Thereafter	209,493

Pension Plan as of and for the Year Ended June 30, 2014

The annual required contribution ("ARC") for the fiscal year ended June 30, 2014, was determined as part of the actuarial valuation for the Plan year beginning January 1, 2013, and was determined using the Projected Unit Credit Cost Method with amortization of the unfunded actuarial liability over 25 years. The actuarial assumptions included (a) 6.5% post-retirement and 6.5% pre-retirement investment rate of return and (b) a projected salary increase of 3.5% per year. Both (a) and (b) include an inflation component of 2.5%. Prior to January 1, 2009, the actuarial value of assets was equal to the market value of assets reported by First Tennessee Bank and CNA Insurance Company. Effective January 1, 2009, a 5-year smoothing method was adopted prospectively. Investment experience different from expected is recognized on a pro rata basis over a 5-year period. The actuarial value of assets at January 1, 2014, reflects three years of smoothing.

10. Retirement Plans (continued)

Pension Plan as of and for the Year Ended June 30, 2014 (continued)

The annual pension cost for the year ended June 30, 2014, was calculated as follows:

Annual required contribution	$ 12,992,015
Interest on beginning of year net pension credit	(339,599)
Adjustment to ARC	421,598
Annual pension cost ("APC")	$ 13,074,014

The funded status of the defined benefit pension plan, including three-year trend information, was as follows at June 30, 2014:

Defined Benefit Pension Plan Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Obligation (Credit)
June 30, 2012	$12,622,215	99%	$(5,295,698)
June 30, 2013	13,164,209	99	(5,224,600)
June 30, 2014	13,074,014	99	(5,142,601)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Total Unfunded AAL Funding Deficit) ("UAAL")	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2013	$ 184,953,998	$ 249,309,801	$ 64,355,803	74%	$152,440,972	42%

Supplemental 415(m) Retirement Plan

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

10. Retirement Plans (continued)

Supplemental 415(m) Retirement Plan (continued)

The 415 Plan net pension liability of $1,102,815 and annual pension expense of $47,369 for fiscal year 2015 are based on a measurement date of June 30, 2014, and a measurement period of July 1, 2013 to June 30, 2014, as determined by an actuarial valuation as of that date. The total pension liability in the June 30, 2015, actuarial valuation was determined using a discount rate of 4%. The projection of cash flows used to determine the discount rate assumed that the Company contributions will be made at actuarially determined amounts.

The funded status of the 415 Plan, including three year trend information, was as follows at June 30, 2014:

Supplemental 415(m) Plan Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net 415 Plan Obligation
June 30, 2012	$85,842	82%	$284,739
June 30, 2013	86,745	81	301,527
June 30, 2014	93,841	75	325,411

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Total Unfunded AAL (Funding Deficit) ("UAAL")	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2013	$ –	$1,069,038	$1,069,038	– %	N/A	– %

The ARC for the fiscal year ended June 30, 2014, was determined as part of the actuarial valuation for the Plan year beginning January 1, 2013, and was determined using the Projected Unit Credit Cost Method with amortization of the unfunded actuarial liability over 20 years with 11 years remaining.

Other Post-Employment Benefits ("OPEB")

The Company accounts for OPEBs in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The Company provides certain postretirement health insurance benefits to certain retired employees and their beneficiaries. Projections of benefits for financial reporting purposes are based on the terms of the plan and the following actuarial assumptions which were determined as part of the January 1, 2013, actuarial valuation. The Company's ARC is calculated using the Projected Unit Credit actuarial cost method.

10. Retirement Plans (continued)

Other Post-Employment Benefits ("OPEB") (continued)

The unfunded actuarial accrued liability is amortized using a level percentage of pay with a 30-year closed amortization period, of which 23 years remain. The actuarial assumptions included 6.5% post-retirement and 6.5% pre-retirement investment rate of return and a projected salary increase of 3.5% per year.

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

OPEB Plan Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net OPEB Obligation
June 30, 2013	$ 908,366	100	-
June 30, 2014	$ 1,051,428	100	-
June 30, 2015	$ 1,096,785	100	-

The balance contributed by the Company for the fiscal year ended June 30, 2015, was $1,096,785 which consisted of $860,825 plus benefit payments of $235,960 made on behalf of the plan. The amount contributed by the Company for the fiscal year ended June 30, 2014, was $1,051,428, which consisted of $558,717 plus benefit payments of $492,711 made on behalf of the plan.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Total Unfunded AAL (Funding Deficit) ("UAAL")	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2013	$3,776,350	$10,716,322	$6,939,972	35%	$230,246,000	3.0%
January 1, 2014	$4,361,001	$11,344,699	$6,983,698	38%	$240,750,215	2.9%

Defined Contribution Plan

The Company also maintains a defined contribution plan under Section 403(b) of the IRC which provides for voluntary contributions by employees upon employment and matching contributions by the Company after 90 days of service. Substantially all employees of the Company are eligible and may contribute up to 100% of their compensation, subject to certain IRC limitations. During the fiscal year ended June 30, 2012, upon January 1 or July 1 after the completion of 90 days of credited service,

10. Retirement Plans (continued)

Defined Contribution Plan (continued)

for every 1% the employee invested up to 6%, the Company matched 25% of the employee's contribution. Beginning on January 1, 2013, upon January 1 or July 1 after the completion of 90 days of credited service, for every 1% the employee invested up to 6%, the Company matched 50% of the employee's contribution. The Company recognized expense related to the 403(b) Plan of $3,779,456 in 2015 and $3,503,304 in 2014. There is no separate audited financial report available for the defined contribution plan, the 415 Plan or the OPEB plan.

11. Commitments and Contingencies

The Company is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Professional Liability

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

The District is a "governmental entity" within the meaning of the Tort Act. As such, its maximum liability for state law tort causes of action is $300,000 for bodily injury or death of any one person in accident, occurrence, or act, and $700,000 for bodily injury or death of all persons in any one accident, occurrence, or act. These limits are subject to change by the Tennessee Legislature.

Investment earnings on contingency fund assets were $121,696 and $126,647 for the years ended June 30, 2015 and 2014, respectively, and are included in investment income in the accompanying statements of revenues and expenses and changes in net assets.

The Company's accrual for self-insured professional liability risks was $3,403,974 and $3,256,671 at June 30, 2015 and 2014, respectively, and was based on asserted claims for occurrences prior to that date. The Company does not accrue for unasserted claims or occurrences. In the opinion of management, any liability for such unasserted claims or occurrences would not materially affect the financial position of the Company.

11. Commitments and Contingencies (continued)

Workers' Compensation

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

The Company is self-insured with respect to employee health insurance. Estimates of health insurance claims incurred but unpaid as of June 30, 2015 and 2014, are accrued based on estimates that incorporate the Company's past experience, as well as other considerations including the nature of claims and relevant trends. The Company had accrued a liability for incurred but unpaid claims of approximately $3,713,000 and $3,598,000, as of June 30, 2015 and 2014, respectively, which is included in other accrued expenses in the accompanying statements of net position. The expenses related to claims paid during the years ended June 30, 2015 and 2014, are $42,160,207 and $39,614,409, respectively, and are included in salaries and benefits expense.

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

	2015	2014	2013
Claims payable, beginning of year	$ 3,598,000	$ 7,276,667	$ 10,445,233
Incurred claims expense	42,160,207	39,614,409	29,952,116
Claims payments	(42,045,207)	(43,293,076)	(33,120,682)
Claims payable, end of year	$ 3,713,000	$ 3,598,000	$ 7,276,667

Litigation

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

12. Obligated Group

As disclosed in Note 8, the Company has revenue bonds outstanding that are payable from the operating revenues of certain affiliates of the District (the Obligated Group). Summary financial information for the Obligated Group is as follows:

	June 30 2015	June 30 2014
Assets		
Current assets	$ 126,174,547	$ 116,592,994
Capital assets	352,516,373	373,961,157
Other assets	362,757,206	339,581,019
	841,448,126	830,135,170
Deferred outflows of resources	53,920,904	5,398,807
Total assets and deferred outflows	$ 895,369,030	$ 835,533,977

	June 30 2015	June 30 2014
Liabilities		
Current liabilities	$ 24,484,732	$ 10,026,195
Long-term debt	295,591,110	284,592,278
Net pension liability	99,231,256	-
	419,307,098	294,618,473
Deferred inflows of resources	10,063,985	-
Net position		
Unrestricted net position	350,164,216	405,351,166
Invested in capital assets, net of related financing	105,121,408	108,534,911
Restricted net position	10,712,323	27,029,427
	465,997,947	540,915,504
Total liabilities, deferred inflows of resources and net position	$ 895,369,030	$ 835,533,977

12. Obligated Group (continued)

	June 30 2015	June 30 2014
Net patient service revenues	$ 560,232,258	$ 519,106,002
Other patient revenues	22,889,015	28,259,049
Total revenues	583,121,273	547,365,051
Operating expenses	502,615,375	467,902,705
Depreciation	43,060,543	44,662,211
Total expenses	545,675,918	512,564,916
Operating income	37,445,355	34,800,135
Net nonoperating revenues	940,015	26,905,316
Interest expense	(18,327,900)	(17,248,129)
Income before transfers	20,057,470	44,457,322
Transfers	-	13,913,580
Increase in net position	20,057,470	58,370,902
Net position, beginning of year	540,915,504	482,544,602
Cumulative effect of change in accounting principle	(94,975,027)	-
Net position, end of year	$ 465,997,947	$ 540,915,504
Net cash provided by (used in):		
Operating activities	$ 90,247,973	$ 44,394,644
Noncapital financing activities	(913,613)	12,451,772
Capital and related financing activities	(31,721,354)	(65,058,418)
Investing activities	(50,811,681)	5,185,669
	6,801,325	(3,026,333)
Cash and cash equivalents, beginning of year	17,116,123	20,142,456
Cash and cash equivalents, end of year	$ 23,917,448	$ 17,116,123

13. Concentrations

The Company purchased approximately 47% and 45% of medical supplies and drugs from two vendors for the years ended June 30, 2015 and 2014, respectively.

14. Subsequent Event

The Company owns and operates a 48-bed inpatient rehabilitation unit located at Jackson-Madison County General Hospital. HealthSouth Corporation owns and operates a 40-bed inpatient rehabilitation hospital known as HealthSouth Cane Creek Rehab Hospital located in Martin, Tennessee. The Company and HealthSouth expect to enter into a joint venture arrangement for the (a) construction, development and operation of a new 48-bed inpatient rehabilitation hospital in Jackson, Tennessee, and (b) the continued operation of the Cane Creek Rehab Hospital in its current

14. Subsequent Event (continued)

location. The parties expect to form a limited liability company with both parties receiving a 50% ownership. The Company will contribute its existing inpatient rehabilitation operations to the joint venture in addition to a cash contribution that has yet to be determined. The inpatient rehabilitation unit in Jackson will cease operations when the new rehabilitation hospital commences operations.

15. Blended Component Units

We consider Jackson-Madison County General Hospital, Bolivar General Hospital, Camden General Hospital, Gibson General Hospital, Humboldt General Hospital, Milan General Hospital, Pathways Behavioral Health, Medical Center Medical Products, Health Partners, Therapy & Learning Center and the West Tennessee Medical Group blended component units ("BCUs") of West Tennessee Healthcare, as the governing body is substantively the same as the governing body of West Tennessee Healthcare and has operational responsibility of these component units.

In January 2014, Humboldt General Hospital and Gibson General Hospital ceased operations and those corporations were closed. The assets of those hospitals were transferred to Jackson-Madison County General Hospital.

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

Statement of Net Position

June 30, 2015	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Camden General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Eliminations	Total BCUs
Assets											
Current assets:											
Cash and cash equivalents	$ 23,917,448	$ 1,677,066	$ 1,053,064	$ 1,171,626	$ 2,816,331	$ -	$ 2,677,723	$ 1,251,647	$ -	$ -	$ 34,564,905
Accounts receivable, net	92,639,543	1,627,375	1,089,176	1,152,978	1,030,173	1,208,856	2,623,834	-	283,218	-	101,655,153
Other receivables	11,452,238	61,367	149,366	249,826	671,261	4,848	260,060	2,602	290,901	(10,095,329)	3,047,140
Inventories	4,691,801	262,123	193,707	194,090	153,591	697,048	172,055	-	-	-	6,364,415
Prepaid expenses	7,934,626	-	-	-	-	-	-	-	-	-	7,934,626
Restricted assets - current portion	4,951,929	-	-	-	-	-	-	-	-	-	4,951,929
Total current assets	145,587,585	3,627,931	2,485,313	2,768,520	4,671,356	1,910,752	5,733,672	1,254,249	574,119	(10,095,329)	158,518,168
Restricted assets	334,718,857	10,186,145	6,702,134	2,177,194	8,483,642	-	-	-	-	-	362,267,972
Other assets	28,038,349	-	-	-	-	-	-	-	-	-	28,038,349
Capital assets, net	351,126,210	2,127,897	2,579,773	902,324	1,837,933	1,390,163	720,871	7,976	1,536,895	-	362,230,042
Total assets	859,471,001	15,941,973	11,767,220	5,848,038	14,992,931	3,300,915	6,454,543	1,262,225	2,111,014	(10,095,329)	911,054,531
Deferred outflows of resources											
Deferred charges on refundings	35,553,922	-	-	-	-	-	-	-	-	-	35,553,922
Pension contributions subsequent to measurement date	17,110,003	-	-	-	-	-	-	-	-	-	17,110,003
Difference between expected and actual pension experience pension deferred outflows, experience	1,256,979	-	-	-	-	-	-	-	-	-	1,256,979
Total deferred outflows of resources	53,920,904	-	-	-	-	-	-	-	-	-	53,920,904
Total assets and deferred outflows of resources	$ 913,391,905	$ 15,941,973	$ 11,767,220	$ 5,848,038	$ 14,992,931	$ 3,300,915	$ 6,454,543	$ 1,262,225	$ 2,111,014	$ (10,095,329)	$ 964,975,435
Liabilities											
Current liabilities:											
Accounts payable	$ 19,489,125	$ 273,883	$ 41,739	$ 92,181	$ 60,930	$ 73,288	$ 132,735	$ -	$ 8,435	$ -	$ 20,172,316
Long-term debt due within one year	6,270,000	-	-	-	-	-	-	-	-	-	6,270,000
Accrued compensation and related expenses	27,315,413	415	45	69		470	754,048	-	-	-	28,070,460
Accrued interest expense	2,910,258	-	-	-	-	-	-	-	-	-	2,910,258
Other accrued expenses	8,114,425	(3,151,952)	(7,368,146)	(1,423,892)	(54,771)	(22,142,243)	32,995,657	1,202	10,508,607	(10,095,329)	7,383,558
Estimated third-party settlements	3,777,786	259,458	(197,027)	78,978	2,369,893	-	104,110	-	-	-	6,393,198
Total current liabilities	67,877,007	(2,618,196)	(7,523,389)	(1,252,664)	2,376,052	(22,068,485)	33,986,550	1,202	10,517,042	(10,095,329)	71,199,790
Other liabilities:											
Long-term debt, less amounts due within one year	295,591,110	-	-	-	-	-	-	-	-	-	295,591,110
Net pension liability	99,231,256	-	-	-	-	-	-	-	-	-	99,231,256
Total other liabilities	394,822,366	-	-	-	-	-	-	-	-	-	394,822,366
Total liabilities	462,699,373	(2,618,196)	(7,523,389)	(1,252,664)	2,376,052	(22,068,485)	33,986,550	1,202	10,517,042	(10,095,329)	466,022,156
Deferred inflows of resources:											
	10,063,985	-	-	-	-	-	-	-	-	-	10,063,985
Net position:											
Unrestricted	326,184,979	16,432,272	16,710,836	6,198,378	10,778,946	23,979,237	(28,252,878)	1,253,047	(9,942,923)	-	363,341,894
Net investment in capital assets	103,731,245	2,127,897	2,579,773	902,324	1,837,933	1,390,163	720,871	7,976	1,536,895	-	114,835,077
Restricted for debt service	10,712,323	-	-	-	-	-	-	-	-	-	10,712,323
Total net position	440,628,547	18,560,169	19,290,609	7,100,702	12,616,879	25,369,400	(27,532,007)	1,261,023	(8,406,028)	-	488,889,294
Total liabilities, deferred inflows of resources and and net position	$ 913,391,905	$ 15,941,973	$ 11,767,220	$ 5,848,038	$ 14,992,931	$ 3,300,915	$ 6,454,543	$ 1,262,225	$ 2,111,014	$ (10,095,329)	$ 964,975,435

Statement of Net Position

June 30, 2014	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Camden General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Eliminations	Total BCUs
Assets											
Current assets:											
Cash and cash equivalents	$ 17,116,123	$ 2,229,928	$ 1,408,753	$ 2,016,031	$ 4,095,883	$ -	$ 3,016,433	$ 2,852,371	$ -	$ -	$ 32,735,522
Accounts receivable, net	93,371,716	1,513,504	911,125	861,317	1,443,610	1,447,327	2,290,329	-	336,521	-	102,175,449
Other receivables	6,990,295	(172,809)	(174,636)	722,667	569,942	1,245	316,533	-	387,186	(3,892,159)	4,748,264
Inventories	4,782,002	209,717	177,241	176,767	136,581	679,762	225,848	-	-	-	6,387,918
Prepaid expenses	7,153,657	-	-	-	-	-	-	-	-	-	7,153,657
Restricted assets - current portion	5,660,068	-	-	-	-	-	-	-	-	-	5,660,068
Total current assets	135,073,861	3,780,340	2,322,483	3,776,782	6,246,016	2,128,334	5,849,143	2,852,371	723,707	(3,892,159)	158,860,878
Restricted assets	309,364,777	10,151,685	6,679,460	2,169,825	8,454,941	-	-	-	-	-	336,820,688
Other assets	30,216,243	-	-	-	-	-	-	-	-	-	30,216,243
Capital assets, net	372,560,404	2,495,077	2,905,183	1,058,671	1,889,462	1,400,753	1,161,968	11,641	1,647,836	-	385,130,995
Total assets	847,215,285	16,427,102	11,907,126	7,005,278	16,590,419	3,529,087	7,011,111	2,864,012	2,371,543	(3,892,159)	911,028,804
Deferred outflows of resources	5,398,807	-	-	-	-	-	-	-	-	-	5,398,807
Total assets and deferred outflows of resources	$ 852,614,092	$ 16,427,102	$ 11,907,126	$ 7,005,278	$ 16,590,419	$ 3,529,087	$ 7,011,111	$ 2,864,012	$ 2,371,543	$ (3,892,159)	$ 916,427,611
Liabilities											
Current liabilities:											
Accounts payable	$ 13,598,832	$ 92,263	$ 64,798	$ 61,331	$ 77,555	$ 255,841	$ 171,217	$ -	$ 12,887	$ -	$ 14,334,724
Long-term debt due within one year	5,144,999	-	-	-	-	-	-	-	-	-	5,144,999
Accrued compensation and related expenses	23,954,894	170	75	20,804	-	151	540,544	-	-	-	24,516,638
Accrued interest expense	4,035,955	-	-	-	-	-	-	-	-	-	4,035,955
Other accrued expenses	(2,190,165)	(65,220)	(5,429,648)	656,830	1,316,633	(20,609,201)	28,152,070	738,112	9,804,234	(3,892,159)	8,481,486
Estimated third-party settlements	6,444,093	309,055	(186,587)	385,496	2,031	-	2,745	-	-	-	6,956,833
Total current liabilities	50,988,608	336,268	(5,551,362)	1,124,461	1,396,219	(20,353,209)	28,866,576	738,112	9,817,121	(3,892,159)	63,470,635
Other liabilities:											
Long-term debt, less amounts due within one year	284,592,278	-	-	-	-	-	-	-	-	-	284,592,278
Total liabilities	335,580,886	336,268	(5,551,362)	1,124,461	1,396,219	(20,353,209)	28,866,576	738,112	9,817,121	(3,892,159)	348,062,913
Net position:											
Unrestricted	382,869,621	13,595,757	14,553,305	4,822,146	13,304,738	22,481,543	(23,017,433)	2,114,259	(9,093,414)	-	421,630,522
Net investment in capital assets	107,134,158	2,495,077	2,905,183	1,058,671	1,889,462	1,400,753	1,161,968	11,641	1,647,836	-	119,704,749
Restricted for debt service	27,029,427	-	-	-	-	-	-	-	-	-	27,029,427
Total net position	517,033,206	16,090,834	17,458,488	5,880,817	15,194,200	23,882,296	(21,855,465)	2,125,900	(7,445,578)	-	568,364,698
Total liabilities											
Total liabilities and net position	$ 852,614,092	$ 16,427,102	$ 11,907,126	$ 7,005,278	$ 16,590,419	$ 3,529,087	$ 7,011,111	$ 2,864,012	$ 2,371,543	$ (3,892,159)	$ 916,427,611

Statement of Revenues and Expenses and Changes in Net Position

For the Year Ended June 30, 2015	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Camden General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Revenue										
Patient service revenues	$ 1,734,987,068	$ 41,859,060	$ 27,228,844	$ 21,577,288	$ 15,420,807	$ 30,121,097	$ 92,014,893	$ -	$ 6,395,565	$ 1,969,604,622
Deductions from revenue	1,186,266,588	31,601,023	20,475,659	13,810,006	8,707,255	18,609,319	59,084,793	-	4,199,475	1,342,754,118
Net patient service revenues	548,720,480	10,258,037	6,753,185	7,767,282	6,713,552	11,511,778	32,930,100	-	2,196,090	626,850,504
Other operating revenues	22,619,689	1,261,600	1,412,252	188,025	6,711,085	269,326	1,651,513	570,361	2,292,347	36,976,198
Total revenues	571,340,169	11,519,637	8,165,437	7,955,307	13,424,637	11,781,104	34,581,613	570,361	4,488,437	663,826,702
Operating expenses										
Salaries	212,139,332	4,731,070	3,849,602	3,858,653	8,948,661	2,207,254	29,554,887	694,066	3,647,723	269,631,248
Benefits	60,194,580	1,084,980	803,064	854,942	2,808,956	711,537	4,350,855	226,031	1,100,689	72,135,634
Supplies	130,731,835	1,693,065	569,687	492,000	1,845,604	6,120,602	2,061,779	14,466	78,848	143,607,886
Other	89,995,824	1,021,282	752,148	1,265,984	2,002,241	514,410	3,776,263	500,151	479,501	100,307,804
Depreciation and amortization	42,320,345	548,972	386,070	271,801	427,020	740,197	520,331	5,292	142,239	45,362,267
Total operating expenses	535,381,916	9,079,369	6,360,571	6,743,380	16,032,482	10,294,000	40,264,115	1,440,006	5,449,000	631,044,839
Operating income	35,958,253	2,440,268	1,804,866	1,211,927	(2,607,845)	1,487,104	(5,682,502)	(869,645)	(960,563)	32,781,863
Nonoperating revenues (expenses)										(913,613)
Investment income	1,853,628	29,067	27,255	7,958	30,524	-	5,960	4,768	113	1,959,273
Interest expenses	(18,327,900)	-	-	-	-	-	-	-	-	(18,327,900)
Contributions to affiliated entities	(913,613)	-	-	-	-	-	-	-	-	
Nonoperating revenues (expenses) net	(17,387,885)	29,067	27,255	7,958	30,524	-	5,960	4,768	113	(17,282,240)
Change in net position	18,570,368	2,469,335	1,832,121	1,219,885	(2,577,321)	1,487,104	(5,676,542)	(864,877)	(960,450)	15,499,623
Beginning net position	517,033,206	16,090,834	17,458,488	5,880,817	15,194,200	23,882,296	(21,855,465)	2,125,900	(7,445,578)	568,364,698
Cumulative effect of change in accounting principle	(94,975,027)	-	-	-	-	-	-	-	-	(94,975,027)
Net position at beginning of year, as restat	422,058,179	16,090,834	17,458,488	5,880,817	15,194,200	23,882,296	(21,855,465)	2,125,900	(7,445,578)	473,389,671
Ending net position	$ 440,628,547	$ 18,560,169	$ 19,290,609	$ 7,100,702	$ 12,616,879	$ 25,369,400	$ (27,532,007)	$ 1,261,023	$ (8,406,028)	$ 488,889,294

Statement of Revenues and Expenses and Changes in Net Position

For the Year Ended June 30, 2014	Jackson-Madison County General Hospital	Milan General Hospital	Humboldt General Hospital	Gibson General Hospital	Bolivar General Hospital	Camden General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Revenue												
Patient service revenues	$ 1,501,769,501	$ 31,998,089	$ 10,358,069	$ 7,282,247	$ 22,062,194	$ 19,151,566	$ 17,216,338	$ 31,986,520	$ 79,829,111	$ -	$ 6,404,792	$ 1,728,058,427
Deductions from revenue	995,022,999	23,591,388	8,000,718	5,661,760	16,853,697	11,355,322	7,328,473	19,627,021	48,252,064	-	4,174,932	1,139,868,374
Net patient service revenues	506,746,502	8,406,701	2,357,351	1,620,487	5,208,497	7,796,244	9,887,865	12,359,499	31,577,047	-	2,229,860	588,190,053
Other operating revenues	28,066,684	(23,052)	102,034	124,070	(11,671)	(92,548)	6,773,457	192,365	1,934,400	1,604,698	2,006,207	40,676,644
Total revenues	534,813,186	8,383,649	2,459,385	1,744,557	5,196,826	7,703,696	16,661,322	12,551,864	33,511,447	1,604,698	4,236,067	628,866,697
Operating expenses												
Salaries	197,261,496	4,511,841	2,269,500	2,283,102	3,866,714	3,862,842	9,821,225	2,120,667	28,553,163	871,466	3,679,810	259,101,826
Benefits	55,335,797	1,038,592	477,971	447,523	818,472	861,006	3,133,975	701,067	4,301,482	287,180	1,158,914	68,561,979
Supplies	115,238,250	1,345,986	381,559	243,984	667,475	656,742	1,672,389	6,705,383	1,938,518	21,068	109,393	128,980,747
Other	89,998,786	981,974	417,424	368,315	680,255	1,048,774	2,120,343	541,259	3,818,128	565,751	505,440	101,046,449
Depreciation and amortization	43,964,002	574,168	284,658	128,045	431,192	282,030	455,921	698,210	678,379	5,655	124,875	47,627,135
Total operating expenses	501,798,331	8,452,561	3,831,112	3,470,969	6,464,108	6,711,394	17,203,853	10,766,586	39,289,670	1,751,120	5,578,432	605,318,136
Operating income	33,014,855	(68,912)	(1,371,727)	(1,726,412)	(1,267,282)	992,302	(542,531)	1,785,278	(5,778,223)	(146,422)	(1,342,365)	23,548,561
Nonoperating revenues (expenses)												
Investment income	28,367,125	1,004,515	53,425	11,330	668,110	216,174	843,410	-	-	5,904	1	31,169,994
Interest expenses	(17,248,129)	-	-	-	-	-		-	-	-	-	(17,248,129)
Contributions to related entities	(1,461,806)	-	-	-	-	-	-	-	-	-	-	(1,461,806)
Nonoperating revenues (expenses) net	9,657,190	1,004,515	53,425	11,330	668,110	216,174	843,410	-	-	5,904	1	12,460,059
Change in net position	42,672,045	935,603	(1,318,302)	(1,715,082)	(599,172)	1,208,476	300,879	1,785,278	(5,778,223)	(140,518)	(1,342,364)	36,008,620
Beginning net position	460,447,581	15,155,231	14,756,870	2,190,094	18,057,660	4,672,341	14,893,321	22,097,018	(16,077,242)	2,266,418	(6,103,214)	532,356,078
Ending net position	$ 503,119,626	$ 16,090,834	$ 13,438,568	$ 475,012	$ 17,458,488	$ 5,880,817	$ 15,194,200	$ 23,882,296	$ (21,855,465)	$ 2,125,900	$ (7,445,578)	$ 568,364,698

Condensed Statement of Cash Flows

For the Year Ended June 30, 2015	Jackson-Madison County General Hospital	Humboldt General Hospital	Gibson General Hospital	Bolivar General Hospital	Camden General Hospital	Milan General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Net cash provided by (used in) operating activities	$ 76,468,886	$12,970,663	$ 78,817	$ (299,610)	$ (729,540)	$ (365,677)	$ (905,884)	$ 729,607	$ (265,436)	$ (1,603,865)	$ 31,185	$86,109,146
Net cash provided by (used in) noncapital financing activities	(913,613)	-	-	-	-	-	-	-	-	-	-	(913,613)
Net cash provided by (used in) investing activities	(31,721,354)	-	-	4,581	589	(5,393)	1,823	-	5,960	4,768	113	(31,708,913)
Net cash provided by (used in) capital and related financing activities	(50,082,074)	-	-	(60,660)	(115,454)	(181,792)	(375,491)	(729,607)	(79,234)	(1,627)	(31,298)	(51,657,237)
Net change in cash and cash equivalents	(6,248,155)	12,970,663	78,817	(355,689)	(844,405)	(552,862)	(1,279,552)	-	(338,710)	(1,600,724)	-	1,829,383
Cash and cash equivalents, beginning of period	16,252,023	467,905	396,195	1,408,753	2,016,031	2,229,928	4,095,883	-	3,016,433	2,852,371	-	32,735,522
Cash and cash equivalents, end of period	$ 10,003,868	$13,438,568	$ 475,012	$ 1,053,064	$1,171,626	$1,677,066	$2,816,331	$ -	$ 2,677,723	$ 1,251,647	$ -	$34,564,905

Condensed Statement of Cash Flows

For the Year Ended June 30, 2014	Jackson-Madison County General Hospital	Humboldt General Hospital	Gibson General Hospital	Bolivar General Hospital	Camden General Hospital	Milan General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Net cash provided by (used in) operating activities	$ 63,113,328	$ (8,901,965)	$ (2,441,886)	$ 932,924	$ 1,214,846	$ 1,571,850	$ 1,850,641	$ 802,053	$ 1,201,862	$ (45,159)	$ 551,752	$59,850,246
Net cash provided by (used in) noncapital financing activities	(959,202)	-	-	-	-	-	-	-	-	-	-	(959,202)
Net cash provided by (used in) investing activities	5,185,669	4,664,806	987,020	5,540	939	(2,485)	4,719	-	-	5,902	-	10,852,110
Net cash provided by (used in) capital and related financing activities	(71,230,229)	3,840,109	1,051,944	(346,202)	(308,012)	(421,536)	(81,535)	(802,053)	(97,836)	(1,551)	(551,752)	(68,948,653)
Net change in cash and cash equivalents	(3,890,434)	(397,050)	(402,922)	592,262	907,773	1,147,829	1,773,825	-	1,104,026	(40,808)	-	794,501
Cash and cash equivalents, beginning of period	20,142,457	864,955	799,117	816,491	1,108,258	1,082,099	2,322,058	-	1,912,407	2,893,179	-	31,941,021
Cash and cash equivalents, end of period	$ 16,252,023	$ 467,905	$ 396,195	$1,408,753	$ 2,016,031	$ 2,229,928	$ 4,095,883	$ -	$ 3,016,433	$ 2,852,371	$ -	$32,735,522

Required Supplementary Information

West Tennessee Healthcare and Related Affiliates

Schedule of Changes in Net Pension Liability and Related Ratios

Year Ended June 30, 2015

	Pension	415 Plan
Total pension liability		
Service cost	$ 7,026,043	$ -
Interest	18,956,129	43,631
Differences between expected and actual experience	1,466,476	3,738
Benefit payments	(14,386,651)	(69,957)
Net change in total pension liability	13,061,997	(22,588)
Total pension liability - beginning	291,686,806	1,125,403
Total pension liability - ending (a)	304,748,803	1,102,815
Plan fiduciary net position		
Contributions - employer	12,992,015	69,957
Net investment income	24,479,564	-
Benefit payments	(14,386,651)	(69,957)
Administrative expense	(464,800)	-
Net change in Plan fiduciary net position	22,620,128	-
Plan fiduciary net position - beginning	184,000,234	-
Plan fiduciary net position - ending (b)	206,620,362	-
Net pension liability (a)-(b)	$ 98,128,441	$ 1,102,815
Plan fiduciary net position as a percentage of the total pension liability	68%	0%
Covered-employee payroll	$ 153,251,621	N/A
Company's net pension liability as a percentage of covered-employee payroll	64%	N/A

West Tennessee Healthcare and Related Affiliates

Schedule of Contributions

Year Ended June 30, 2015

	Pension	415 Plan
Actuarially determined contribution	$ 13,140,968	$ 69,957
Contributions in relation to the actuarially determined contribution	(17,040,047)	(69,957)
Contribution deficiency (excess)	$ (3,899,079)	$ -
Covered-employee payroll	$ 153,251,621	N/A
Contributions as a percentage of covered-employee payroll	-11%	N/A

Notes to the schedule valuation date:

Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

	Pension	415 Plan
Valuation date	June 30, 2014, measurement date; census data collected January 1, 2014	June 30, 2014, measurement date; census data collected June 30, 2014
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Closed amortization	N/A
Amortization period of initial unfunded AAL	To be determined	N/A
Remaining amortization method	To be determined	N/A
Asset valuation method	Market value	N/A
CPI	2.50%	N/A
Salary increases	3.5% average, including inflation	4%
Investment rate of return	6.5%, net of pension plan investment expense, including inflation	
Mortality	RP-2014 Mortality Table for males and females with generational projections using Scale BB.	RP-2014 Mortality Table for males and females with generational projections using Scale BB.
Retirement age	Per the following table:	N/A

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

West Tennessee Healthcare and Related Affiliates

Defined Benefit Retirement Plans
Schedule of Employer Contributions (Unaudited)

Pension Plan[a]

Year Ended December 31	Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percentage Contributed
2008	June 30, 2009	$ 10,937,013	$ 10,937,016	100%
2009	June 30, 2010	11,068,225	11,068,225	100%
2010	June 30, 2011	11,217,077	11,217,077	100%
2011	June 30, 2012	12,555,768	12,555,768	100%
2012	June 30, 2013	13,093,111	13,093,111	100%
2013	June 30, 2014	12,992,015	12,992,015	100%

Supplemental 415(m) Plan[a]

Year Ended December 31	Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percentage Contributed
2008	June 30, 2009	$ 91,376	$ 64,127	70%
2009	June 30, 2010	91,623	69,957	76%
2010	June 30, 2011	95,100	69,957	74%
2011	June 30, 2012	98,636	69,957	71%
2012	June 30, 2013	101,825	69,957	69%
2013	June 30, 2014	113,908	69,957	61%

OPEB Plan

Year Ended December 31	Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percentage Contributed
2008	June 30, 2009	$ 647,040	$ 647,040	100%
2009	June 30, 2010	790,751	790,751	100%
2010	June 30, 2011	826,240	826,240	100%
2011	June 30, 2012	937,560	937,560	100%
2012	June 30, 2013	908,366	908,366	100%
2013	June 30, 2014	1,051,428	1,051,428	100%
2014	June 30, 2015	1,096,785	1,096,785	100%

[a] The actuarially determined contribution requirements for the Company's fiscal year ended June 30, 2014, are based on actuarial valuations as of January 1, 2013, and are prior to the adoption of GASB Statement No. 68.

West Tennessee Healthcare and Related Affiliates

Defined Benefit Retirement Plans
Schedule of Funding Progress (Unaudited)

Pension Plan[(a)]

Actuarial Valuation Date	Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Total Unfunded AAL (Funding Deficit) ("UAAL")	Funded Ratio	Annual Covered Payroll	UAAL As % of Covered Payroll
January 1, 2011	June 30, 2012	$ 178,927,625	$ 228,607,365	$ 49,679,740	78%	$ 158,948,315	31%
January 1, 2012	June 30, 2013	179,550,974	239,688,164	60,137,190	75%	156,334,613	39%
January 1, 2013	June 30, 2014	184,953,998	249,309,801	64,355,803	74%	152,440,972	42%

Supplemental 415(m) Plan[(a)]

Actuarial Valuation Date	Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Total Unfunded AAL (Funding Deficit) ("UAAL")	Funded Ratio	Annual Covered Payroll	UAAL As % of Covered Payroll
July 1, 2011	June 30, 2012	$ -	$ 916,816	$ 916,816	0%	NA	NA
July 1, 2012	June 30, 2013	-	901,427	901,427	0%	NA	NA
July 1, 2013	June 30, 2014	-	1,069,038	1,069,038	0%	NA	NA

OPEB Plan

Actuarial Valuation Date	Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Total Unfunded AAL (Funding Deficit) ("UAAL")	Funded Ratio	Annual Covered Payroll	UAAL As % of Covered Payroll
January 1, 2011	June 30, 2012	$ 2,300,633	$ 8,972,682	$ 6,672,049	26%	NA	NA
January 1, 2012	June 30, 2013	2,930,198	9,251,573	6,321,375	32%	$ 231,463,066	3%
January 1, 2013	June 30, 2014	3,776,350	10,716,322	6,939,972	35%	230,246,194	3%
January 1, 2014	June 30, 2015	4,361,001	11,344,699	6,983,698	38%	240,750,215	3%

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

Supplementary Information

West Tennessee Healthcare and Related Affiliates

Deductions from Gross Patient Service Revenues

For the Year Ended June 30, 2015

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Camden General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Medicare	$ 627,303,502	$ 14,609,598	$ 6,969,947	$ 5,474,956	$ 1,043,156	$ 5,603,815	$ 30,164,001	$ -	$ -	$ 691,168,975
Tenncare	184,607,666	6,424,467	6,116,281	1,161,784	1,986,174	5,948,183	11,338,380	-	2,579,064	220,161,999
Other revenue deductions	321,016,807	8,122,367	5,224,058	5,229,759	5,242,329	5,707,125	14,429,870	-	1,589,347	366,561,662
Bad debt	53,338,613	2,444,591	2,165,373	1,943,507	435,596	1,350,196	3,152,542	-	31,064	64,861,482
	$ 1,186,266,588	$ 31,601,023	$ 20,475,659	$ 13,810,006	$ 8,707,255	$ 18,609,319	$ 59,084,793	$ -	$ 4,199,475	$ 1,342,754,118

West Tennessee Healthcare and Related Affiliates

Deductions from Gross Patient Service Revenues

For the Year Ended June 30, 2014

	Jackson-Madison County General Hospital	Humboldt General Hospital	Gibson General Hospital	Bolivar General Hospital	Camden General Hospital	Milan General Hospital	Pathways Behavioral Health	Medical Center Medical Products	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Medicare	$ 503,223,414	$ 2,845,810	$ 2,200,395	$ 5,029,509	$ 4,546,433	$ 10,313,981	$ 1,153,946	$ 5,531,385	$ 24,565,772	$ -	$ -	$ 559,410,645
Tenncare	150,713,682	2,102,160	1,406,571	4,607,775	2,593,286	4,820,354	2,576,801	7,515,621	9,253,935	-	2,003,739	187,593,924
Other revenue deductions	285,004,140	959,097	697,282	4,552,248	2,020,595	6,563,999	3,376,399	5,191,220	11,711,340	-	2,147,540	322,223,860
Bad debt	56,081,763	2,093,651	1,357,512	2,664,165	2,195,008	1,893,054	221,327	1,388,795	2,721,017		23,653	70,639,945
	$ 995,022,999	$ 8,000,718	$ 5,661,760	$ 16,853,697	$ 11,355,322	$ 23,591,388	$ 7,328,473	$ 19,627,021	$ 48,252,064	$ -	$ 4,174,932	$ 1,139,868,374

West Tennessee Healthcare and Related Affiliates

Schedule of Expenditures of Federal Awards and State Financial Assistance

For the Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor	CFDA Number	Contract Number	Expenditures
Federal Awards			
U.S. Department of Education			
Tennessee Department of Education			
Special Education - Grants for Infants and Families	84.181A	40118	$ 166,448
Total U.S. Department of Education			166,448
U.S. Department of Health and Human Services			
Tennessee Department of Health and Human Services			
Pass-Through from Signal Centers, Inc.			
Child Care and Development Block Grant	93.575	N/A	308,490
Block Grant for Community Mental Health Services	93.958	42561	119,606
	93.958	42024	36,000
			155,606
Affordable Care Act ("ACA") Maternal, Infant and Early Childhood Home Visiting Program	93.505	N/A	619,500
Total Tennessee Department of Human Services			1,083,596
Tennessee Department of Mental Health Substance Abuse Services			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	43568	93,108
	93.243	39622	36,881
	93.243	40043	117,279
	93.243	42793	195,645
			442,913
Block Grant for Prevention and Treatment of Substance Abuse	93.959	42287	54,622
	93.959	41158	157,194
	93.959	41847	129,958
	93.959	42041	349,980
			691,754
Substance Abuse and Mental Health Services Projects for Assistance in Transition from Homelessness	93.150	41861	58,501
Total Tennessee Department of Mental Health Substance Abuse Services			1,193,168
Tennessee Department of Health			
Small Rural Hospital Improvement Grant Program	93.301	40711	17,330
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	41432	30,415
National Bioterrorism Hospital Preparedness Program	93.889	43751	38,746
Total Tennessee Department of Health			86,491
Total U.S. Department of Health and Human Services			2,363,255
Total Federal Awards			2,529,703

West Tennessee Healthcare and Related Affiliates

Schedule of Expenditures of Federal Awards and State Financial Assistance (continued)

Federal Grantor/ Pass-Through Grantor	CFDA Number	Contract Number	Expenditures
State Financial Assistance			
Tennessee Department of Education			
Special Education Grants for Infants and Families with Disabilities		40118[1]	465,987
Total Tennessee Department of Education			465,987
Tennessee Department of Mental Health			
Division of Alcohol and Drug Abuse Services			
Block Grant for Prevention and Treatment		DGA41157 2014-2015 021	159,348
		42039	199,980
		DGA 41134 2014-2015 011	1,300,214
		42812	23,375
			1,682,917
Block Grant for Community Mental Health Services		41773	308,101
		42023	32,450
		42025	96,978
		42585	85,551
		42563	1,278,973
			1,802,053
Substance Abuse and Mental Health Services			
Projects for Assisting in Transition from Homelessness		41861[1]	34,876
		42026	36,623
		DGA 41146 2014-2015 005	158,000
			229,499
Total Tennessee Department of Mental Health			3,714,469
Tennessee Department of Health			
Block Grant for Maternal and Child Health Services		43243	100,362
		35737	55,000
Total Tennessee Department of Health			155,362
Total State Awards			4,335,818
Total Federal and State Awards			$ 6,865,521

[1] State participation in federally funded projects

Notes to Schedule of Expenditures of Federal Awards
and State Financial Assistance

For the Year Ended June 30, 2015

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance summarizes expenditures of West Tennessee Healthcare and Related Affiliates (the "Company") under programs of the federal and state governments for the year ended June 30, 2015. The schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Contingencies

The Company's federal programs are subject to financial and compliance audits by grantor agencies which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Company's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Company expects such amounts, if any, to be immaterial.

DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
West Tennessee Healthcare and Related Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Tennessee Healthcare and Related Affiliates (the "Company"), which comprise the statement of net position as of June 30, 2015, and the related statements of revenues and expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control over Financial Reporting

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

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

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

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

Memphis, Tennessee
September 30, 2015

DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Trustees
West Tennessee Healthcare and Related Affiliates

Report on Compliance for Each Major Federal Program

We have audited West Tennessee Healthcare and Related Affiliates' (the "Company") compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Company's major federal programs for the year ended June 30, 2015. The Company's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on the compliance for each of the Company's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

DIXON HUGHES GOODMAN LLP

Report on Internal Control over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

Memphis, Tennessee
December 11, 2015

West Tennessee Healthcare and Related Affiliates
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Part I - Summary of Auditors' Results

1. The independent auditors' report expresses an unmodified opinion on the financial statements of West Tennessee Healthcare and Related Affiliates (the "Company").

2. No material weaknesses relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

3. No instances of noncompliance considered material to the financial statements of the Company were disclosed during the audit.

4. No material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance for Each Major Program and Internal Control Over Compliance Required by OMB Circular A-133.

5. The Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 expressed an unmodified opinion.

6. The audit disclosed no findings required to be reported by OMB Circular A-133.

7. The Company's major federal programs were the U.S. Department of Health and Human Services Child Care and Community Block Grant (CFDA 93.575) and the U.S. Department of Health and Human Services Substance Abuse and Mental Health Services Projects of Regional and National Significance (CFDA 93.243).

8. The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

9. The Company qualifies as a low-risk auditee as that term is defined in OMB Circular A-133.

Part II - Financial Statement Findings

None

Part III – Major Federal Program Findings and Questioned Costs

None

West Tennessee Healthcare and Related Affiliates
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2015

Part II - Financial Statement Findings

None

Part III – Major Federal Program Findings and Questioned Costs

None