

Annual Financial Report

Blount Memorial
Hospital, Inc.

*Years ended June 30, 2015 and 2014
with Report of Independent Auditors*

Blount Memorial Hospital, Inc.
Annual Financial Report
Years ended June 30, 2015 and 2014

Contents

Report of Independent Auditors.....	1
Management’s Discussion and Analysis.....	3
Audited Financial Statements	
Statements of Net Position.....	8
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows.....	11
Notes to Financial Statements.....	13
List of Officials	32
Report of Independent Auditors on Internal Control over Financial Reporting on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33

Report of Independent Auditors

To Management and the Board of Directors of
Blount Memorial Hospital, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Blount Memorial Hospital, Inc. (the Hospital), a component unit of the County of Blount, Tennessee, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To Management and the Board of Directors of
Blount Memorial Hospital, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Blount Memorial Hospital, Inc. as of June 30, 2015 and 2014, and the changes in its net position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2015 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions, laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Coulter & Justus, P.C.

Knoxville, Tennessee
September 10, 2015

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

This section of Blount Memorial Hospital, Inc.'s annual financial report presents management's discussion and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2015 and 2014. The information contained herein should be considered in conjunction with the Hospital's accompanying financial statements. Unless otherwise indicated, amounts are in thousands.

Overview of the Financial Statements

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

The statements of net position provide descriptions of the Hospital's assets and liabilities and an indication of the Hospital's financial position. The statements of revenue, expenses and changes in net position report the revenues and expenses related to the Hospital's activities. The statements of cash flows report the cash provided and used by operating, investing, capital, financing and other activities. The financial information herein is presented at a summarized level for analysis purposes only.

Financial Highlights

Condensed financial information as of and for the years ended June 30, 2015, 2014 and 2013 is provided in the tables below.

	2015	2014	2013
Assets:			
Current assets	\$ 34,327	\$ 36,458	\$ 37,904
Assets limited as to use	107,213	109,909	108,244
Property and equipment, net	126,780	124,704	126,387
Other	8,104	8,273	9,139
Total assets	<u>\$276,424</u>	<u>\$279,344</u>	<u>\$281,674</u>
Deferred outflows of resources--accumulated decrease in fair value of interest rate swaps	<u>\$ 11,146</u>	<u>\$ 10,405</u>	<u>\$ 9,994</u>

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

Financial Highlights (continued)

	2015	2014	2013
Liabilities:			
Current liabilities	\$ 24,013	\$ 22,847	\$ 23,862
Bonds payable	81,949	86,041	92,510
Interest rate swap liabilities	11,146	10,405	9,994
Total liabilities	<u>\$117,108</u>	<u>\$119,293</u>	<u>\$126,366</u>
Net position:			
Net investment in capital assets	\$ 40,739	\$ 34,491	\$ 32,465
Restricted, nonexpendable	1,075	1,060	936
Unrestricted	128,648	134,905	131,901
Total net position	<u>\$170,462</u>	<u>\$170,456</u>	<u>\$165,302</u>
Changes in net position:			
Operating revenues	\$233,281	\$221,270	\$206,859
Operating expenses	230,469	222,729	210,618
Operating income (loss)	2,812	(1,459)	(3,759)
Nonoperating (expenses) revenues	(2,806)	6,613	(3,871)
Increase (decrease) in net position	<u>\$ 6</u>	<u>\$ 5,154</u>	<u>\$ (7,630)</u>

Current Assets

Current assets decreased from 2014 to 2015 from \$36,458 to \$34,327. The cash position decreased from \$7,433 to \$4,809 during the fiscal year along with an increase in accounts receivable from \$23,278 to \$23,575. Inventories increased from \$3,169 to \$3,793 due to the acquisition of Maryville Surgical Center, LLC which more detail is found in note 5 to the financial statements.

Assets Limited as To Use

Assets limited as to use decreased from \$109,909 to \$107,213 during the fiscal year. Unfavorable investment returns drove the changes.

Net Position

Overall, the Hospital's net position increased from \$170,456 to \$170,462 during the fiscal year. In note 12 to the financial statements, the blended component units that make up Blount Memorial Hospital, Inc. are displayed in more detail.

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

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

Financial Highlights (continued)

Results of Operations

Operating revenues and expenses are as follows for the years ended June 30, 2015, 2014 and 2013.

	2015	Relative %	2014	Relative %	2013	Relative %
Net patient service revenue	\$191,870	82%	\$182,815	83%	\$175,214	85%
Other revenue	41,411	18%	38,455	17%	31,645	15%
Total operating revenues	\$233,281	100%	\$221,270	100%	\$206,859	100%
Salaries and wages	\$111,532	48%	\$105,021	47%	\$ 99,360	47%
Employee benefits	25,197	11%	25,419	12%	27,364	13%
Contract salaries	913	1%	3,027	1%	2,558	1%
Professional fees	4,593	2%	4,033	2%	4,352	2%
Patient supplies	35,876	16%	34,170	15%	32,046	15%
Purchased maintenance	9,065	4%	9,514	4%	7,862	4%
Outside services	7,228	3%	6,598	3%	6,607	3%
Equipment rental	2,616	1%	2,982	1%	2,809	2%
Utilities	4,976	2%	4,982	2%	4,476	2%
Marketing	1,045	1%	964	1%	833	0%
Depreciation and amortization	17,225	7%	16,152	7%	13,179	6%
Other expenses	10,203	4%	9,867	5%	9,172	5%
Total operating expenses	\$230,469	100%	\$222,729	100%	\$210,618	100%
Interest expense	\$ (2,220)	(79)%	\$(2,726)	(41)%	\$ (3,705)	(96)%
Investment (loss) income	(1,068)	(38)%	7,912	120%	(662)	(17)%
Contributions and other	482	17%	1,427	21%	496	13%
Total nonoperating (expenses) revenues	\$ (2,806)	(100)%	\$ 6,613	100%	\$ (3,871)	(100)%

Changes in patient volumes have resulted in an increase in net patient service revenue of 5.0% from 2014 to 2015. Hospital fees and rates have increased each year but a significant portion of the price increases are not reimbursed by the Hospital's largest third-party payors such as Medicare and TennCare.

Total operating revenues and expenses have increased 5.4% and 3.5%, respectively, from 2014 to 2015.

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

Financial Highlights (continued)

Results of Operations (continued)

Operating income posted at \$2,812 for the year was an increase of \$4,271 over the prior year.

Interest expense in 2015 declined to \$2,220 after refunding bonds during the prior fiscal year.

Other Changes in Net Position

The Hospital experienced investment loss of \$1,068 in 2015 and investment income of \$7,912 in 2014. The changes in fair value of investments in both years were due to the changes in the market.

Capital Acquisitions and Construction Activities

Note 6 to the financial statements summarizes property and equipment by class and changes for the years ended June 30, 2015 and 2014. Additional information regarding accounting policies for capital assets is provided in Note 1 to the financial statements.

Total property and equipment increased from \$124,704 to \$126,780 during the fiscal year. Construction in progress at June 30, 2015 consists of facility upgrades. The hospital recorded Health Information Technology for Economic and Clinical Health Act ("HITECH") related incentive payments of \$2,247 and \$932 during fiscal year 2015 and 2014, respectively. Note 3 to the financial statements discusses the Hospital's meaningful use initiatives in more detail.

Long-Term Debt Activity

The Series 2013A bonds bear interest at a variable rate. Bonds totaling \$25,000 are subject to an interest rate swap agreement which fixes the rate at 4.9%. An additional portion of the bonds totaling \$30,700 are subject to an interest rate swap agreement which fixes the rate at 4.33%. The balance outstanding at June 30, 2015 and 2014 was \$82,550 and \$85,925, respectively. Principal payments totaled \$3,375 on the Series 2013A bonds during 2015.

The Series 2014 bonds bear interest at a fixed rate of 1.68%. The balance outstanding at June 30, 2015 and 2014 was \$3,491 and \$4,288, respectively. Principal payments totaled \$797 on the Series 2014 bonds during 2015.

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

Requests for Information

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

Respectfully submitted,



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

Blount Memorial Hospital, Inc.

Statements of Net Position

	June 30	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,808,547	\$ 7,433,277
Patient accounts receivable, less allowances for uncollectible accounts of \$11,590,975 in 2015 and \$11,114,745 in 2014	23,574,849	23,277,777
Inventories	3,793,814	3,169,305
Prepaid expenses	2,150,085	2,577,949
Total current assets	<u>34,327,295</u>	36,458,308
Assets limited as to use:		
By Board	105,673,093	108,253,349
Foundation	1,539,715	1,564,220
Other investments--held by trustee	-	91,006
	<u>107,212,808</u>	109,908,575
Property and equipment, net	126,779,796	124,704,493
Other assets	8,103,779	8,272,789
Total assets	<u>276,423,678</u>	279,344,165
Deferred outflows of resources		
Accumulated decrease in fair value of interest rate swaps	11,145,815	10,405,050
Total assets and deferred outflows of resources	<u>\$ 287,569,493</u>	<u>\$ 289,749,215</u>

Blount Memorial Hospital, Inc.

Statements of Net Position (continued)

	June 30	
	2015	2014
Liabilities and net position		
Current liabilities:		
Accounts payable	\$ 4,372,977	\$ 3,286,598
Accrued compensation, benefits and withholdings	12,077,160	11,271,165
Other accrued expenses	2,394,332	3,119,477
Estimated third party payor settlements	901,810	831,175
Accrued interest payable	174,487	166,416
Current portion of bonds payable	4,091,778	4,172,438
Total current liabilities	<u>24,012,544</u>	22,847,269
Bonds payable	81,949,184	86,040,962
Interest rate swap liabilities	11,145,815	10,405,050
Total liabilities	<u>117,107,543</u>	119,293,281
Net position:		
Net investment in capital assets	40,738,834	34,491,093
Restricted in perpetuity under an irrevocable endowment trust, nonexpendable	1,074,686	1,060,420
Unrestricted	128,648,430	134,904,421
Total net position	<u>170,461,950</u>	170,455,934
Total liabilities and net position	<u>\$ 287,569,493</u>	<u>\$ 289,749,215</u>

See accompanying Notes to Financial Statements.

Blount Memorial Hospital, Inc.

Statements of Revenues, Expenses and Changes in Net Position

	Year ended June 30	
	2015	2014
Operating revenues:		
Net patient service revenue	\$ 191,869,673	\$ 182,814,716
Other revenue	41,410,997	38,455,362
Total operating revenues	<u>233,280,670</u>	<u>221,270,078</u>
Operating expenses:		
Salaries and wages	111,532,533	105,021,263
Employee benefits	25,197,314	25,419,312
Contract salaries	912,692	3,027,272
Professional fees	4,592,733	4,032,782
Patient supplies	35,875,833	34,169,470
Purchased maintenance	9,065,120	9,513,703
Outside services	7,227,879	6,597,796
Equipment rental	2,615,620	2,981,710
Utilities	4,975,664	4,981,776
Marketing	1,044,726	964,009
Depreciation and amortization	17,225,398	16,152,257
Other expenses	10,203,318	9,867,430
Total operating expenses	<u>230,468,830</u>	<u>222,728,780</u>
Operating income (loss)	2,811,840	(1,458,702)
Nonoperating (expenses) revenues:		
Interest expense	(2,220,004)	(2,726,506)
Investment (loss) income	(1,068,042)	7,912,527
Contributions and other	482,222	1,426,782
Total nonoperating (expenses) revenues	<u>(2,805,824)</u>	<u>6,612,803</u>
Increase in net position	6,016	5,154,101
Net position at beginning of year	170,455,934	165,301,833
Net position at end of year	<u>\$ 170,461,950</u>	<u>\$ 170,455,934</u>

See accompanying Notes to Financial Statements.

Blount Memorial Hospital, Inc.

Statements of Cash Flows

	Year ended June 30	
	2015	2014
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 233,248,039	\$ 224,688,744
Payments to employees for services	(110,726,538)	(104,380,940)
Payments to suppliers and contractors	(102,528,724)	(101,427,379)
Net cash provided by operating activities	<u>19,992,777</u>	18,880,425
Cash flows from noncapital financing activities		
Contributions and other	430,400	1,447,622
Cash flows from capital and related financing activities		
Additions to property and equipment	(17,202,361)	(14,797,652)
Acquisition of MSC assets	(1,225,901)	-
Repayments of long-term debt	(4,172,438)	(99,825,000)
Proceeds from bond issuance	-	93,413,400
Interest paid on long-term debt	(2,211,933)	(2,945,170)
Net cash used in capital and related financing activities	<u>(24,812,633)</u>	(24,154,422)
Cash flows from investing activities		
Interest and dividends	1,185,844	2,505,335
Proceeds from sale of equipment	137,001	-
Net proceeds from sale of investment securities designated as assets limited as to use	614,986	1,668,787
Net cash provided by investing activities	<u>1,937,831</u>	4,174,122
Net (decrease) increase in cash and cash equivalents	(2,451,625)	347,747
Cash and cash equivalents at beginning of year	7,928,801	7,581,054
Cash and cash equivalents at end of year	<u>\$ 5,477,176</u>	<u>\$ 7,928,801</u>
Reconciliation of cash and cash equivalents to the statements of net position		
Cash and cash equivalents in current assets	\$ 4,808,547	\$ 7,433,277
Cash and cash equivalents included in assets limited as to use	668,629	495,524
Total cash and cash equivalents	<u>\$ 5,477,176</u>	<u>\$ 7,928,801</u>

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

	Year ended June 30	
	2015	2014
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 2,811,840	\$ (1,458,702)
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	17,225,398	16,152,257
Changes in operating assets and liabilities:		
Net patient accounts receivable	(103,266)	3,437,494
Inventories and prepaid expenses	109,465	429,745
Other assets	(595,276)	(31,797)
Accounts payable and other accrued expenses	(332,014)	(270,067)
Accrued compensation, benefits and withholdings	805,995	640,323
Estimated third party payor settlements	70,635	(18,828)
Net cash provided by operating activities	\$ 19,992,777	\$ 18,880,425

Noncash investing, capital and financing activities

At June 30, 2015, accounts payable and accrued expenses included \$693,248 for property and other capital additions.

Investment income includes decreases of \$2,253,886 in 2015 and increases of \$5,407,192 in 2014 to reflect the net change in fair value of investments during each year.

See accompanying Notes to Financial Statements.

Blount Memorial Hospital, Inc.

Notes to Financial Statements

June 30, 2015

1. Description of Reporting Entity and Significant Accounting Policies

Reporting Entity

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

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

The Hospital is the sole corporate member of the Blount Memorial Foundation (the Foundation), which coordinates and secures resources to enable the Hospital to maintain, improve and advance medical care. The Hospital and the Foundation have common boards of directors and the financial activity of the Foundation is included (blended) in the Hospital's financial statements (*Note 12*). Separate financial statements of the Foundation are maintained by Foundation and Hospital management. Except for certain expenses paid directly by the Foundation, the Hospital provides administrative services and pays for operating expenses to support the Foundation's activities.

Blount Memorial Physician Group, Inc. (BMPG) is owned 100% by the Hospital and governed by the Hospital's board of directors. The financial activity of BMPG is also included (blended) in the Hospital's financial statements (*Note 12*). BMPG provides physician and outpatient services in Blount County and includes over 80 physicians in a multi-specialty practice. Separate financial statements are maintained by Hospital management.

The Hospital has a non-controlling ownership interest in a partnership which operates a medical facility in Blount County consistent with the Hospital's mission of providing healthcare services. This ownership investment is included in other assets at June 30, 2015 and 2014 (*Note 7*).

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

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

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

Basis of Presentation

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

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

Restricted - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported. The restricted component is separated into nonexpendable and expendable. Net position subject to externally imposed stipulations that the Hospital maintain them permanently are nonexpendable. Net position on which use by the Hospital is subject to externally imposed stipulations that can be fulfilled by action of the Hospital pursuant to those stipulations or that expire by the passage of time are expendable.

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

Cash and Cash Equivalents

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

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

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

Patient Accounts Receivable

Accounts receivable from patients and third-party payors (*Note 4*) are recorded on the accrual basis in the period in which services are rendered. The Hospital does not require collateral on accounts receivable. In evaluating the collectability of accounts receivable, the Hospital analyzes historical collection rates and write-offs and identifies trends for payors to estimate appropriate allowance amounts. Accounts are charged to bad debt expense as they are determined to be uncollectible based on a review of aging and collections.

Inventories

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

Investments

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

The Hospital is organized as a private act hospital authority, which provides the Hospital additional rights and powers including the manner in which funds are invested. The Hospital diversifies its investments into a broad range of asset classes in order to reduce concentration risk and to maximize return with reasonable and prudent levels of risk. It is also the Hospital's policy to limit the maximum position for each type of investment at varying levels within these classifications. As of June 30, 2015, the Hospital's fixed income investments all have quality ratings of A or better (by both Standard & Poor's and Moody's).

To limit its exposure to fair value losses arising from changing interest rates, the Hospital's investment policy restricts the type and maturities of fixed income investments in order to increase the overall investment horizon. The current duration of the Hospital's fixed income investments ranges up to approximately 8 years with an average duration of 3.8 years, based on timing of interest payments, maturity dates, and expectations of minimal interest rate changes.

Assets Limited as to Use by Board and Foundation

Certain investments have been designated by the Board of Directors for the replacement of property and equipment or for other purposes. Cash and investments held by the Foundation in trust accounts are also classified as assets limited as to use (*Note 2*). A portion of the investment at June 30, 2015 and 2014 totaling \$1,074,686 and \$1,060,420, respectively, is restricted in perpetuity (nonexpendable) under an irrevocable endowment trust.

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

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

Property and Equipment

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

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

Accrual for Compensated Absences

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

Operating Revenues and Expenses

Revenue and expenses associated with the Hospital's mission of providing healthcare services are considered to be operating activities. Non-operating revenues consist primarily of investment income (loss) and general contributions to the Hospital. Unrestricted resources will be applied first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Income Taxes

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

Charity Care

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

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

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

Patient Service Revenue

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

Risk Management

The Hospital is self-insured for medical malpractice and employee (including dependent) group health expenses and claims (*Note 9*). Commercial insurance is purchased for significant exposure to various other risks typical to the Hospital's operating environment and industry such as loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. There were no significant losses in excess of insurance coverage during the last three years.

Use of Estimates

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

Reclassification

Certain amounts in 2014 have been reclassified to conform to 2015 classifications.

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

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

BMPG's cash balances at financial institutions are covered by Federal Deposit Insurance Corporation (FDIC) insurance (credit risk category insured), subject to certain limits. At June 30, 2015, BMPG balances exceeded the limits by approximately \$240,000 (uninsured credit risk category).

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

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

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

	2015	%	2014	%
Money market funds (cash equivalents)	\$ 336,997	0%	\$ 150,399	0%
U.S. Government Agency securities	7,614,185	7%	8,997,194	8%
Municipal bonds	3,371,794	3%	6,015,475	6%
Corporate bonds	7,607,157	7%	10,616,375	10%
Common stock	1,288,083	1%	-	0%
Bond mutual funds	37,332,002	36%	42,726,561	39%
Equity mutual funds	48,122,875	46%	39,838,351	37%
	\$105,673,093	100%	\$108,344,355	100%

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

	2015	2014
Interest and dividends	\$ 1,185,844	\$2,505,335
Net realized and unrealized investment (loss) gain	(2,253,886)	5,407,192
	\$(1,068,042)	\$7,912,527

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

	2015	2014
Cash	\$ 22,923	\$ 75,155
Money market funds (cash equivalents)	308,709	269,970
Bond mutual funds	492,573	470,605
Equity mutual funds	715,510	748,490
	\$1,539,715	\$1,564,220

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

3. Net Patient Service Revenue

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

	2015	2014
Gross patient service charges	\$ 809,173,131	\$ 747,615,994
Contractual adjustments and discounts	(564,165,442)	(514,382,294)
Charity care charges foregone	(38,331,218)	(37,564,748)
Provision for bad debts	(14,806,798)	(12,854,236)
Net patient service revenue	\$ 191,869,673	\$ 182,814,716

HITECH was enacted as part of the American Recovery and Reinvestment Act of 2009. Under HITECH, the Hospital must implement a certified electronic health record in an effort to promote the adoption and meaningful use of health information technology. It is the Hospital's policy to recognize such revenue when there is reasonable assurance the condition specified for compliance within the applicable statutes will be met and the grant will be received. Accordingly, during 2015 and 2014 the Hospital recorded approximately \$2,247,000 and \$932,000, respectively, of incentive payments under Medicare and TennCare programs related to meeting meaningful use objectives mandated by HITECH. These incentive payments are included as a component of net patient service revenue.

4. Third Party Payor Agreements

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

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

4. Third Party Payor Agreements (continued)

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

Contractual adjustments for Medicare, TennCare and other third party discount arrangements are recognized when the related revenues are reported in the financial statements. The percentage of gross patient charges from the Medicare and TennCare programs was approximately 31% and 10% in both 2015 and 2014.

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

5. Acquisition of Maryville Surgical Center, LLC

Effective January 15, 2015, the Hospital acquired substantially all assets of Maryville Surgical Center, LLC (MSC). The acquisition was accounted for as a purchase transaction where the Hospital recorded all assets acquired at their fair values on the date of acquisition. The following table presents the allocation of the purchase price to assets acquired based on their estimated fair values.

Medical and other equipment	\$ 527,475
Inventory, surgical instruments and other	293,529
Accounts receivable	193,806
Other assets	211,091
Total cash consideration	<u>1,225,901</u>

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

6. Property and Equipment

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

	Balance July 01, 2014	Additions	Retirements and Transfers	Balance June 30, 2015
Cost:				
Land	\$ 12,018,917	\$ 42,462	\$ -	\$ 12,061,379
Land improvements	2,382,783	-	-	2,382,783
Buildings, improvements, and fixed equipment	164,780,787	5,285,831	(851,779)	169,214,839
Equipment	122,964,891	12,691,118	(832,894)	134,823,115
Construction in progress	1,068,926	1,472,599	(1,068,926)	1,472,599
Total cost	<u>303,216,304</u>	<u>19,492,010</u>	<u>(2,753,599)</u>	<u>319,954,715</u>
Allowances for depreciation:				
Land improvements	(2,302,911)	(8,598)	-	(2,311,509)
Buildings, improvements, and fixed equipment	(85,319,916)	(6,265,364)	766,600	(90,818,680)
Equipment	(90,888,984)	(9,988,640)	832,894	(100,044,730)
Total allowances	<u>(178,511,811)</u>	<u>(16,262,602)</u>	<u>1,599,494</u>	<u>(193,174,919)</u>
Net property and equipment	<u>\$124,704,493</u>	<u>\$ 3,229,408</u>	<u>\$(1,154,105)</u>	<u>\$ 126,779,796</u>

Construction in progress at June 30, 2015 includes costs primarily related to the renovation and upgrades to the building with total estimated costs to complete of approximately \$1,325,000.

	Balance July 01, 2013	Additions	Retirements and Transfers	Balance June 30, 2014
Cost:				
Land	\$ 11,050,183	\$ 968,734	\$ -	\$ 12,018,917
Land improvements	2,382,783	-	-	2,382,783
Buildings, improvements, and fixed equipment	156,857,030	8,000,873	(77,116)	164,780,787
Equipment	117,169,436	5,934,854	(139,399)	122,964,891
Construction in progress	2,380,690	86,734	(1,398,498)	1,068,926
Total cost	<u>289,840,122</u>	<u>14,991,195</u>	<u>(1,615,013)</u>	<u>303,216,304</u>
Allowances for depreciation:				
Land improvements	(2,294,273)	(8,638)	-	(2,302,911)
Buildings, improvements, and fixed equipment	(79,120,632)	(6,276,400)	77,116	(85,319,916)
Equipment	(82,038,142)	(8,969,401)	118,559	(90,888,984)
Total allowances	<u>(163,453,047)</u>	<u>(15,254,439)</u>	<u>195,675</u>	<u>(178,511,811)</u>
Net property and equipment	<u>\$126,387,075</u>	<u>\$ (263,244)</u>	<u>\$ (1,419,338)</u>	<u>\$ 124,704,493</u>

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

7. Other Assets

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

	<u>2015</u>	<u>2014</u>
Goodwill	\$2,378,063	\$2,449,046
Trade name	1,450,568	1,431,391
Non-compete agreements	157,153	785,770
Medical records	494,963	472,810
Workforce	973,668	968,772
Other	609,364	125,000
	<u>\$6,063,779</u>	<u>\$6,232,789</u>

Goodwill and trade name are being amortized over a period of ten to forty years. Medical records and workforce are amortized over a period of ten to twenty years. The non-compete agreements are being amortized over a period of three years. Amortization expense for intangibles was \$962,796 and \$866,021 for the years ended June 30, 2015 and 2014, respectively. Amortization expense for the next three years related to these intangible assets is estimated to approximate \$419,000, \$237,000 and \$212,000.

8. Long-term Debt

Changes in long-term debt are summarized as follows:

	<u>Balance July 01, 2014</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance June 30, 2015</u>
Series 2013A Bonds	\$85,925,000	\$ —	\$ 3,375,000	\$ 82,550,000
Series 2014 Bonds	4,288,400	—	797,438	3,490,962
Total outstanding	90,213,400	\$ —	\$ 4,172,438	86,040,962
Less current portion	(4,172,438)			(4,091,778)
Long-term portion	<u>\$86,040,962</u>			<u>\$81,949,184</u>

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

8. Long-term Debt (continued)

	Balance July 01, 2013	Additions	Principal Payments	Balance June 30, 2014
Series 1998B Bonds	\$ 7,500,000	\$ —	\$ 7,500,000	\$ —
Series E-5-A Bonds	89,125,000	—	89,125,000	—
Series 2013A Bonds	—	89,125,000	3,200,000	85,925,000
Series 2014 Bonds	—	4,288,400	—	4,288,400
Total outstanding	<u>96,625,000</u>	<u>\$93,413,400</u>	<u>\$99,825,000</u>	<u>90,213,400</u>
Less current portion	<u>(4,115,000)</u>			<u>(4,172,438)</u>
Long-term portion	<u>\$92,510,000</u>			<u>\$86,040,962</u>

Blount County issued, on behalf of the Hospital, Hospital Revenue Improvement Bonds, Series 1998B, in December 1998. The Series 1998B Bonds were subject to redemption at the option of the County, in whole or in part, at the redemption price of par, without premium, plus accrued interest to the redemption date. The County exercised its redemption option in January 2014.

In August 2008, Blount County issued, on behalf of the Hospital, \$96,350,000 of Local Government Public Improvement Bonds, Series E-5-A. The Series E-5-A Bonds were subject to redemption at the option of the County, in whole or in part, at the redemption price of par plus accrued interest to the redemption date. The County exercised its redemption option in December 2013.

To refund the Series E-5-A Bonds, in December 2013 Blount County issued, on behalf of the Hospital, \$89,125,000 of General Obligation Refunding Bonds, Series 2013A. The Series 2013A Bonds bear interest at a variable rate based on the product of the one month Libor rate (.184% at June 30, 2015) and a factor (67% at June 30, 2015) plus the applicable spread based on the investment rating of the bonds (.43% at June 30, 2015). The Series 2013A Bonds mature in increasing annual amounts ranging from \$3,525,000 in 2016 to \$8,425,000 in 2029 and are subject to redemption at the option of the County, in whole or in part, at the redemption price of par plus accrued interest to the redemption date. There was no difference between the reacquisition price and the net carrying amount of the old debt. The Hospital completed the refunding to reduce its total debt service payments over the following 16 years by approximately \$210,000, which resulted in an economic gain (difference between the present value of the old and new debt service payments) of approximately \$160,000.

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

8. Long-term Debt (continued)

In January 2014, Blount County issued on behalf of the Hospital, \$4,288,400 of Hospital Revenue Refunding Bonds, Series 2014. The Series 2014 Bonds were used to refund the Series 1998B bonds. The Series 2014 Bonds mature in varying annual amounts ranging from \$566,778 to a final payment of approximately \$842,000 on July 1, 2019 at an interest rate of 1.68%. The Series 2014 Bonds are subject to redemption at the option of the County, in whole or in part, at the redemption price of par, without premium, plus accrued interest to the redemption date. There was no difference between the reacquisition price and the net carrying amount of the old debt. The Hospital completed the refunding to reduce its total debt service payments over the following 6 years by approximately \$810,000, which resulted in an economic gain (difference between the present value of the old and new debt service payments) of approximately \$650,000.

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

The Hospital records the fair value liability of its interest rate swaps, which were determined by an independent third-party advisory firm from a model that calculates future cash flows by projecting forward rates and then discounts those cash flows to their present value. The fair value liability of the interest rate swaps increased by \$740,765 in 2015 and \$410,637 in 2014.

As of June 30, 2015, the Hospital was not exposed to credit risk because the swaps have negative fair values. However, should interest rates change and the fair value of the swaps become positive, the Hospital would be exposed to credit risk in the amount of the fair value of the swaps. As of June 30, 2015, the counterparty to the swaps, Deutsche Bank, was rated A3/BBB+/A by Moody's, Standard & Poor's and Fitch, respectively.

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

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

8. Long-term Debt (continued)

Maturities and mandatory sinking fund payments related to the balances outstanding as of June 30, 2015, are summarized as follows:

	Series 2013A	Series 2014	Total
2016	\$ 3,525,000	\$ 566,778	\$ 4,091,778
2017	3,700,000	626,295	4,326,295
2018	3,875,000	692,100	4,567,100
2019	4,075,000	763,889	4,838,889
2020	4,275,000	841,900	5,116,900
2021 – 2025	31,700,000	–	31,700,000
2026 – 2029	31,400,000	–	31,400,000
	<u>\$82,550,000</u>	<u>\$3,490,962</u>	<u>\$86,040,962</u>

Future interest payments related to the bonds are as follows (interest for variable portion of the Series 2013A Bonds is determined using the rate in effect at June 30, 2015, which was 0.55%).

	Series 2013A	Series 2014	Total
2016	\$ 2,702,238	\$ 53,848	\$ 2,756,086
2017	2,682,654	43,822	2,726,476
2018	2,662,102	32,743	2,694,845
2019	2,640,570	20,508	2,661,078
2020	2,617,932	7,014	2,624,946
2021 – 2025	10,941,112	–	10,941,112
2026 – 2029	3,395,439	–	3,395,439
	<u>\$27,642,047</u>	<u>\$ 157,935</u>	<u>\$27,799,982</u>

The revenues of the Hospital are pledged as collateral for the Series 2014 Bonds. The bond agreements require the Hospital to maintain certain financial and other covenants.

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

9. Malpractice Trust Fund and Employee Group Health Claims

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

The Hospital is self-insured for professional malpractice liability coverage. Claims and expenses of \$105,475 and \$137,447 were paid during 2015 and 2014, respectively. At June 30, 2015, the Hospital is involved in medical malpractice litigation in which management of the Hospital, after consultation with legal counsel, is of the opinion that liability, if any, related to these claims would not be material to the financial statements. No amounts are accrued for potential losses related to unreported incidents or reported incidents which have not yet resulted in asserted claims as the Hospital is not able to estimate such amounts.

The Hospital is self-insured for employee (and dependent) group health claims and records a liability for claims known but unpaid and estimated claims incurred but not reported. The liability for employee group health claims was \$1,059,607 and \$1,323,181 at June 30, 2015 and 2014, respectively. The total expense related to employee group health claims (net of employee paid premiums) was approximately \$12,009,000 and \$12,482,000 for 2015 and 2014, respectively.

10. Fair Value

The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

Mutual funds and common stocks are valued using prices quoted in active markets for those securities, while the debt securities are valued based on the securities’ relationship to benchmark quoted prices. Derivative instruments are valued using a market approach that considers benchmark interest rates.

As of and for the years ended June 30, 2015 and 2014, the Hospital has adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which provides for enhanced disclosures of fair value measurements.

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

10. Fair Value (continued)

The following table sets forth by level, within the fair value hierarchy, the fair value of the Hospital's investments (assets limited as to use) as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Investments by fair value level:				
Debt securities:				
U.S. Government Agency Securities	\$ —	\$ 7,614,185	\$ —	\$ 7,614,185
Corporate bonds	—	7,607,157	—	7,607,157
Municipal bonds	—	3,371,794	—	3,371,794
Total debt securities	—	18,593,136	—	18,593,136
Mutual funds:				
Money market funds	645,706	—	—	645,706
Bond funds	37,824,575	—	—	37,824,575
Equity funds	48,838,385	—	—	48,838,385
Total mutual funds	87,308,666	—	—	87,308,666
Common stock	1,288,083	—	—	1,288,083
Total investments by fair value level	\$88,596,749	\$18,593,136	\$ —	\$107,189,885
Derivative instruments:				
Interest rate swaps	\$ —	\$11,145,815	\$ —	\$ 11,145,815

The following table sets forth by level, within the fair value hierarchy, the fair value of the Hospital's investments (assets limited as to use) as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Investments by fair value level:				
Debt securities:				
U.S. Government Agency Securities	\$ —	\$ 8,997,194	\$ —	\$ 8,997,194
Corporate bonds	—	10,616,375	—	10,616,375
Municipal bonds	—	6,015,475	—	6,015,475
Total debt securities	—	25,629,044	—	25,629,044
Mutual funds:				
Money market funds	420,369	—	—	420,369
Bond funds	43,197,166	—	—	43,197,166
Equity funds	40,586,841	—	—	40,586,841
Total mutual funds	84,204,376	—	—	84,204,376
Total investments by fair value level	\$84,204,376	\$25,629,044	\$ —	\$109,833,420
Derivative instruments:				
Interest rate swaps	\$ —	\$10,405,050	\$ —	\$ 10,405,050

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

11. Retirement Plan

The Blount Memorial Hospital Retirement Plan (the Plan) includes two defined contribution plans available to all employees who are age 18 or older. New participants who have completed 1,000 hours of service vest 20% each year from two years of service to six years of service. The Plan provides for the Hospital to contribute an amount equal to 3% of each eligible employee's compensation plus a matching contribution (limited to 3% of compensation) based upon voluntary employee contributions to the Plan. Plan contributions are made biweekly. Hospital contributions to the Plan, net of forfeitures used of approximately \$130,000 in both 2015 and 2014, totaled \$3,858,141 and \$3,733,159 in 2015 and 2014, respectively. Employee contributions were \$3,500,592 and \$3,535,826 in 2015 and 2014, respectively.

12. Blended Component Units

Condensed combining information for the Hospital and its blended component units (*Note 1*) is presented as follows:

**Condensed Combining Statement of Net Position
June 30, 2015**

	Hospital	Foundation	BMPG	Total
Assets				
Current assets	\$ 32,240,083	\$ –	\$2,087,212	\$ 34,327,295
Assets limited as to use	105,673,093	1,539,715	–	107,212,808
Property and equipment, net	126,779,796	–	–	126,779,796
Other noncurrent assets	8,103,779	–	–	8,103,779
Total assets	272,796,751	1,539,715	2,087,212	276,423,678
Deferred outflows of resources	11,145,815	–	–	11,145,815
Total assets and deferred outflows of resources	\$283,942,566	\$1,539,715	\$2,087,212	\$287,569,493
Liabilities and net position				
Current liabilities	\$ 23,370,209	\$ –	\$ 642,335	\$ 24,012,544
Long-term liabilities	93,094,999	–	–	93,094,999
Total liabilities	116,465,208	–	642,335	117,107,543
Net position:				
Net investment in capital assets	40,738,834	–	–	40,738,834
Restricted, nonexpendable	–	1,074,686	–	1,074,686
Unrestricted	126,738,524	465,029	1,444,877	128,648,430
Total net position	167,477,358	1,539,715	1,444,877	170,461,950
Total liabilities and net position	\$283,942,566	\$1,539,715	\$2,087,212	\$287,569,493

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

12. Blended Component Units (continued)

**Condensed Combining Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2015**

	Hospital	Foundation	BMPG	Total
Operating revenues:				
Net patient service revenue	\$163,863,929	\$ –	\$ 28,005,744	\$191,869,673
Other revenue	41,410,997	–	–	41,410,997
Total operating revenues	205,274,926	–	28,005,744	233,280,670
Operating expenses:				
Depreciation and amortization	17,225,398	–	–	17,225,398
Other operating expenses	171,338,776	368,131	41,536,525	213,243,432
Total operating expenses	188,564,174	368,131	41,536,525	230,468,830
Operating income (loss)	16,710,752	(368,131)	(13,530,781)	2,811,840
Nonoperating (expenses) revenues:				
Interest expense	(2,220,004)	–	–	(2,220,004)
Investment (loss) income	(1,114,883)	46,841	–	(1,068,042)
Contributions and other	185,437	296,785	–	482,222
Total nonoperating (expenses) revenues	(3,149,450)	343,626	–	(2,805,824)
Increase (decrease) in net position	13,561,302	(24,505)	(13,530,781)	6,016
Net position at beginning of year	167,729,834	1,564,220	1,161,880	170,455,934
Transfers	(13,813,778)	–	13,813,778	–
Net position at end of year	\$167,477,358	\$1,539,715	\$ 1,444,877	\$170,461,950

**Condensed Combining Statement of Cash Flows
Year ended June 30, 2015**

	Hospital	Foundation	BMPG	Total
Net cash provided by (used in):				
Operating activities	\$34,443,682	\$(368,131)	\$(14,082,774)	\$ 19,992,777
Noncapital financing activities	133,615	296,785	–	430,400
Capital and related financing activities	(24,812,633)	–	–	(24,812,633)
Investing activities	(11,933,800)	57,853	13,813,778	1,937,831
Net decrease in cash and cash equivalents	(2,169,136)	(13,493)	(268,996)	(2,451,625)
Cash and cash equivalents at beginning of year	7,022,880	345,125	560,796	7,928,801
Cash and cash equivalents at end of year	\$ 4,853,744	\$ 331,632	\$ 291,800	\$ 5,477,176

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

12. Blended Component Units (continued)

**Condensed Combining Statement of Net Position
June 30, 2014**

	Hospital	Foundation	BMPG	Total
Assets				
Current assets	\$ 34,384,097	\$ –	\$2,074,211	\$ 36,458,308
Assets limited as to use	108,344,355	1,564,220	–	109,908,575
Property and equipment, net	124,704,493	–	–	124,704,493
Other noncurrent assets	8,272,789	–	–	8,272,789
Total assets	275,705,734	1,564,220	2,074,211	279,344,165
Deferred outflows of resources				
Total assets and deferred outflows of resources	10,405,050	–	–	10,405,050
	\$286,110,784	\$1,564,220	\$2,074,211	\$289,749,215
Liabilities and net position				
Current liabilities	\$ 21,934,938	\$ –	\$ 912,331	\$ 22,847,269
Long-term liabilities	96,446,012	–	–	96,446,012
Total liabilities	118,380,950	–	912,331	119,293,281
Net position:				
Net investment in capital assets	34,491,093	–	–	34,491,093
Restricted, nonexpendable	–	1,060,420	–	1,060,420
Unrestricted	133,238,741	503,800	1,161,880	134,904,421
Total net position	167,729,834	1,564,220	1,161,880	170,455,934
Total liabilities and net position	\$286,110,784	\$1,564,220	\$2,074,211	\$289,749,215

Blount Memorial Hospital, Inc.
Notes to Financial Statements (continued)
June 30, 2015

12. Blended Component Units (continued)

**Condensed Combining Statement of Revenues, Expenses and Changes in Net Position
Year ended June 30, 2014**

	Hospital	Foundation	BMPG	Total
Operating revenues:				
Net patient service revenue	\$157,556,127	\$ –	\$25,258,589	\$182,814,716
Other revenue	38,455,362	–	–	38,455,362
Total operating revenues	196,011,489	–	25,258,589	221,270,078
Operating expenses:				
Depreciation and amortization	16,152,257	–	–	16,152,257
Other operating expenses	168,731,605	569,138	37,275,780	206,576,523
Total operating expenses	184,883,862	569,138	37,275,780	222,728,780
Operating income (loss)	11,127,627	(569,138)	(12,017,191)	(1,458,702)
Nonoperating (expenses) revenues:				
Interest expense	(2,726,506)	–	–	(2,726,506)
Investment income	7,740,570	171,957	–	7,912,527
Contributions and other	846,410	580,372	–	1,426,782
Total nonoperating (expenses) revenues	5,860,474	752,329	–	6,612,803
Increase (decrease) in net position	16,988,101	183,191	(12,017,191)	5,154,101
Net position at beginning of year	162,982,610	1,381,029	938,194	165,301,833
Transfers	(12,240,877)	–	12,240,877	–
Net position at end of year	\$167,729,834	\$1,564,220	\$ 1,161,880	\$170,455,934

**Condensed Combining Statement of Cash Flows
Year ended June 30, 2014**

	Hospital	Foundation	BMPG	Total
Net cash provided by (used in):				
Operating activities	\$31,477,617	\$ (569,138)	\$(12,028,054)	\$18,880,425
Noncapital financing activities	867,250	580,372	–	1,447,622
Capital and related financing activities	(24,154,422)	–	–	(24,154,422)
Investing activities	(8,120,824)	54,069	12,240,877	4,174,122
Net increase in cash and cash equivalents	69,621	65,303	212,823	347,747
Cash and cash equivalents at beginning of year	6,953,259	279,822	347,973	7,581,054
Cash and cash equivalents at end of year	\$ 7,022,880	\$ 345,125	\$ 560,796	\$ 7,928,801

Blount Memorial Hospital, Inc.

List of Officials

June 30, 2015

Board of Directors

Robert Redwine, President

Ted Flickinger, M.D., Vice President

Jim Fiegle

Carolyn Forster

Francis Gross, Ed.D

Clarence Williams

David Pesterfield

David Cockrill

Denny Mayes

Executive Administration

Don Heinemann

Jane Nelson

Jonathan Smith

Sonya Newman

Clay Puckett

Connie Huffman

Harold Naramore, M.D.



Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To Management and the Board of Directors of
Blount Memorial Hospital, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Blount Memorial Hospital, Inc. (the Hospital) as of and for the year ended June 30, 2015, and the related notes to the financial statements and have issued our report thereon dated September 10, 2015.

Internal Control over Financial Reporting

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

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

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

To Management and the Board of Directors of
Blount Memorial Hospital, Inc.

Compliance and Other Matters

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

Purpose of this Report

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

Coulter & Justus, P. C.

Knoxville, Tennessee
September 10, 2015