HARDIN MEDICAL CENTER
(a component unit of Hardin County)

Consolidated Financial Statements and Supplemental Schedules

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

LBMC MAKE A GOOD BUSINESS BETTER

HARDIN MEDICAL CENTER
(a component unit of Hardin County)

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LBMC MAKE A GOOD BUSINESS BETTER

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Hardin Medical Center
Savannah, Tennessee:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hardin Medical Center (the "Medical Center"), a component unit of Hardin County, Tennessee, which comprise the consolidated statements of net position as of June 30, 2015 and 2014, the related consolidated statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the Medical Center 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3-5, the Schedule of Changes in Net Pension Liability and Related Ratios Based on Participation in the Public Employee Pension Plan of Tennessee Consolidated Retirement System, the Schedule of Contributions Based on Participation in the Public Employee Pension Plan of Tennessee Consolidated Retirement System and the Notes to the Required Supplementary Information on pages 35-37 be presented to supplement the basic consolidated financial statements. Such information, although not part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 basic consolidated financial statements taken as a whole. The supplemental schedules (pages 38-39) are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly presented in all material respects in relation to the basic consolidated financial statements taken as a whole.

Adoption of New Accounting Pronouncement

As discussed in Note 2(q) of the consolidated financial statements, the Medical Center adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27* during fiscal year 2015 with retrospective application to fiscal year 2014. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2015 audit.

CBMC, P.C.

Brentwood, Tennessee
November 18, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Hardin Medical Center (including HMC Health and Rehabilitation Center and HMC Physician Services) provides an overview of the Medical Center's financial activities for the year ended June 30, 2015.

FINANCIAL HIGHLIGHTS

Condensed information follows:

	2015	2014	Increase (Decrease) $	Increase (Decrease) %	2013
Current assets	$ 21,986,824	$ 18,552,056	$ 3,434,768	18.51%	$ 18,947,551
Property & equipment, net	15,580,746	15,906,036	(325,290)	-2.05%	16,557,525
Other assets	189,725	271,704	(81,979)	-30.17%	376,513
Deferred outflows of resources	306,332	-	306,332	-	-
Current liabilities	4,454,414	4,184,443	269,971	6.45%	3,817,722
Long-term liabilities	8,319,142	11,140,488	(2,821,346)	-25.33%	8,155,986
Deferred inflows of resources	2,128,350	-	2,128,350	-	-
Net investment in capital assets	7,936,677	7,751,049	185,628	2.39%	7,903,124
Total net position, unrestricted	15,225,044	11,653,816	3,571,228	30.64%	16,004,757
Net patient service revenue	39,342,897	35,346,080	3,996,817	11.31%	37,159,130
Total revenues and nonoperating income	40,829,047	36,585,974	4,243,073	11.60%	38,581,593
Total expenses	37,072,191	37,592,571	(520,380)	-1.38%	37,137,620
Change in net position	3,756,856	(1,006,597)	4,763,453	-473.22%	1,443,973

USING THE FINANCIAL REPORT

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position include all assets and liabilities of the Hospital, Health and Rehabilitation Center and Physician Services using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. These statements provide information about whether the entity is better off or worse off as a result of the year's activities.

Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Over time, increases or decreases in net position provide one indicator of the financial health of the entity.

CAPITAL ASSETS AND DEBT ADMINISTRATION

During the year, $1,307,702 of fixed assets were acquired. During the year, $510,918 of principal and $94,801 of interest on debt and capital lease obligations were paid.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

In fiscal year 2015 the Medical Center (including the Health and Rehabilitation Center and Physician Services) had net income of $3,756,856 and generated $122 million in gross operating revenue; i.e., before contractual and bad debt adjustments. The breakdown for operating revenue consists of 24% inpatient and 76% outpatient. The Medical Center experienced a $4,763,453 increase in change in net position from 2014 to 2015 and a $2,450,570 decrease in change in net position from 2013 to 2014. Factors relating to this include an increase in census, heavy internal focus on the revenue cycle (improving cash collections, timely billings, more accurate coding, etc.) changes in reimbursement, and a focusing on managing variable expenses with the higher revenues.

The Medical Center (including the Health and Rehabilitation Center and Physician Services) is dependent on governmental programs. Medicare and Medicaid/TennCare make up approximately 50% of the Hospital's payor mix, commercial insurance equals 38% and self-pay accounts equal 12%.

The budgeting process is a participatory process in that departmental directors are involved in its development and monitoring. Department heads are provided a framework of economic conditions and general assumptions and they, in turn, request the resources they will need to accomplish their goals and objectives within that framework.

For fiscal year beginning July 1, 2015, the Medical Center projects a decrease in inpatient volume using a five year average as the base. This results in a decrease of 2% in net patient service revenue and a decrease of 4% in expenses. While the Medical Center will provide pay increases to employees, a decrease in salaries of 1% is expected through productivity measures and lower volumes.

CONTACTING THE HARDIN MEDICAL CENTER MANAGEMENT

This financial report is designed to provide our citizens, customers, taxpayers and creditors with a general overview of the facilities' finances and to show accountability for the money they receive. If you have questions about this report or need additional financial information, contact the Finance Department of the Hardin Medical Center, 935 Wayne Road, Savannah, Tennessee 38372.

HARDIN MEDICAL CENTER
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HARDIN MEDICAL CENTER
(a component unit of Hardin County)

Consolidated Statements of Net Position

June 30, 2015 and 2014

	2015	2014
Assets:		
Cash and cash equivalents	$ 14,395,572	$ 9,473,559
Investments	3,693,414	3,693,397
Patient accounts receivable, less allowance for uncollectible accounts of $2,627,751 and $2,818,497 in 2015 and 2014, respectively	2,498,402	3,762,059
Other accounts receivable	12,828	147,400
Estimated third-party payor settlements	-	111,857
Inventories	1,282,610	1,286,022
Prepaid expenses and other current assets	103,998	77,762
Total current assets	21,986,824	18,552,056
Property and equipment, net	15,580,746	15,906,036
Other assets	189,725	271,704
Total assets	37,757,295	34,729,796
Deferred outflows of resources - employer pension contributions	306,332	-
Liabilities:		
Current portion of long-term debt	375,224	367,224
Current portion of capital lease obligations	147,283	143,694
Accounts payable	1,766,108	1,410,939
Accrued expenses and other current liabilities	2,165,799	2,262,586
Total current liabilities	4,454,414	4,184,443
Long-term debt, excluding current portion	5,540,936	5,916,160
Capital lease obligations, excluding current portion	1,580,626	1,727,909
Net pension liability	1,197,580	3,496,419
Total liabilities	12,773,556	15,324,931
Deferred inflows of resources - pension	2,128,350	-
Net position:		
Net investment in capital assets	7,936,677	7,751,049
Unrestricted net position	15,225,044	11,653,816
Total net position	$ 23,161,721	$ 19,404,865

See accompanying notes to the consolidated financial statements.

HARDIN MEDICAL CENTER
(a component unit of Hardin County)

Consolidated Statements of Revenue, Expenses and Changes in Net Position

Years ended June 30, 2015 and 2014

	2015	2014
Operating revenue:		
Patient service revenue, net of provision for bad debts of $4,589,355 and $3,305,906 in 2015 and 2014, respectively	$ 39,342,897	$ 35,346,080
Other revenue	1,058,509	1,113,520
Total operating revenue	40,401,406	36,459,600
Expenses:		
Salaries and wages	17,007,595	17,350,873
Employee benefits	2,938,764	3,682,924
Purchased services	4,243,063	3,946,784
Consultants	367,383	152,109
Insurance	332,598	368,050
Supplies	7,566,504	7,505,106
Utilities	337,106	363,146
Repairs and maintenance	1,379,878	1,487,347
Rent	387,969	425,533
Professional recruitment	186,616	129,148
Depreciation and amortization	1,611,166	1,534,934
Other expenses	713,549	646,617
Total expenses	37,072,191	37,592,571
Operating income (loss)	3,329,215	(1,132,971)
Nonoperating income (expense):		
Interest income	114,000	101,964
Interest expense	(94,801)	(102,676)
Contributions	135,572	-
Pension income	170,489	-
Other revenue	102,381	127,086
Nonoperating income, net	427,641	126,374
Excess of revenue over expenses (expenses over revenue)	3,756,856	(1,006,597)
Net position at beginning of year, as previously reported		23,907,881
Cumulative adjustment in connection with adoption of pension accounting literature (see Note 2(q))		(3,496,419)
Net position at beginning of year, as restated		20,411,462
Net position at end of year, as restated		$ 19,404,865
Net position at beginning of year, as restated	19,404,865	
Net position at end of year	$ 23,161,721	

See accompanying notes to the consolidated financial statements.

HARDIN MEDICAL CENTER
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Consolidated Statements of Cash Flows

Years ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 40,718,411	$ 36,228,954
Payments to suppliers	(14,639,801)	(12,867,269)
Payments to employees	(20,683,051)	(21,688,420)
Other receipts and payments, net	1,058,509	1,113,520
Net cash provided by operating activities	6,454,068	2,786,785
Cash flows from noncapital financing activities:		
Contributions received	34,522	-
Other noncapital contributions	100,000	101,046
Net cash provided by noncapital financing activities	134,522	101,046
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(367,224)	(359,224)
Interest paid on long-term debt	(50,192)	(54,565)
Repayment of capital lease obligations	(143,694)	(140,190)
Interest paid on capital lease obligations	(44,609)	(48,111)
Purchases of property and equipment	(1,206,652)	(883,445)
Net cash used by capital and related financing activities	(1,812,371)	(1,485,535)
Cash flows from investing activities:		
Distributions from joint venture	31,811	10,322
Investment income	114,000	101,964
Purchases of investments, net	(17)	(11,174)
Net cash provided by investing activities	145,794	101,112
Increase in cash and cash equivalents	4,922,013	1,503,408
Cash and cash equivalents at beginning of year	9,473,559	7,970,151
Cash and cash equivalents at end of year	$ 14,395,572	$ 9,473,559

See accompanying notes to the consolidated financial statements.

HARDIN MEDICAL CENTER
(a component unit of Hardin County)

Consolidated Statements of Cash Flows, Continued

Years ended June 30, 2015 and 2014

	2015	2014
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 3,329,215	$ (1,132,971)
Adjustments to reconcile changes in net position to cash provided by operating activities:		
Depreciation and amortization	1,611,166	1,534,934
Provision for bad debts	4,589,355	3,305,906
(Increase) decrease in operating assets and deferred outflows of resources:		
Patient accounts receivable	(3,325,699)	(2,300,784)
Other accounts receivable	134,572	1,038,096
Estimated third-party payor settlements	111,857	(122,248)
Inventories	3,412	28,483
Prepaid expenses and other current assets	(26,236)	(49,767)
Other assets	74,376	120,527
Deferred outflows of resources - employer pension contributions	(306,332)	-
Increase (decrease) in operating liabilities:		
Accounts payable	355,169	342,731
Accrued expenses and other current liabilities	(96,787)	21,878
Net cash provided by operating activities	$ 6,454,068	$ 2,786,785
Supplemental schedule of noncash investing, capital and financing activities:		
Property and equipment acquired through noncash contribution	$ 101,050	$ -

See accompanying notes to the consolidated financial statements.

(1) Nature of operations

Hardin Medical Center (the "Medical Center"), HMC Health and Rehabilitation Center ("HMCHRC") and HMC Physician Services, Inc. ("HMCPS") are located in Savannah, Tennessee. The Medical Center is a 58-bed community medical center providing general and specialized medical services to patients. HMCHRC is a 73-bed intermediate and skilled care facility. HMCPS, a wholly-owned subsidiary of the Medical Center, is a physician practice which provides medical and other health care services. Under accounting principles generally accepted in the United States of America, the Medical Center constitutes a component unit of Hardin County, Tennessee (the "County") for financial reporting purposes. The County Board of Commissioners is responsible for appointing each member of the Medical Center's Board of Commissioners which also oversees HMCHRC's activities. Hardin County also guarantees a loan held by the Medical Center (see Note 7). Information relative to Hardin County, Tennessee may be obtained by reading its separately issued financial statements.

(2) Summary of significant accounting policies

(a) Basis of presentation

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis, which is an economic resources measurement focus approach to accounting. In December 2010, the Governmental Accounting Standards Board ("GASB") issued Statement No. 62*, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* GASB No. 62 makes the GASB *Accounting Standards Codification* the sole source of authoritative accounting technical literature for governmental entities in the United States of America. In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 62 and No. 63 were effective for periods beginning after December 15, 2011.

(b) Cash, cash equivalents, and investments

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash on hand or in banks and investments with original maturities at date of purchase of less than three months.

Cash and cash equivalents include cash on hand and certificates of deposit, with original maturities of less than three months, with financial institutions. Investments consist of certificates of deposit with original maturities of greater than three months. Those investments with original maturities greater than three months but less than one year are classified as short-term investments, while the remaining amount is classified as long-term. All of the Medical Center's cash and cash equivalents and investments are insured or collateralized by securities held by the financial institutions' trust department in the Medical Center's name.

At June 30, 2015 and 2014, the total carrying value of the Medical Center's cash, cash equivalents and investments, was $18,088,986 and $13,166,956, respectively, and the bank balance was $18,098,278 and $13,173,456, respectively.

(c) Inventories

Inventories are stated at the lower of cost, determined on the first-in, first-out (FIFO) basis, or market (net realizable value).

(d) Patient accounts receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Medical Center provides an allowance for uncollectible accounts based on a review of outstanding receivables, historical collection information and existing economic conditions.

(e) Fair value measurements

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3).

The Medical Center has $3,693,414 and $3,693,397 as of June 30, 2015 and 2014, respectively, in certificates of deposit that would be classified as Level 2 under the hierarchy above. The Medical Center does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2015 and 2014.

(f) Property and equipment

Property and equipment acquisitions are recorded at cost. The Medical Center capitalizes purchases that cost a minimum of $5,000 and have a useful life greater than one year. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 5-30 years; buildings and improvements 5-50 years; equipment 3-20 years; and furniture and fixtures 5-30 years. Assets under capital lease obligations are included in property and equipment and the related amortization and accumulated amortization are included in depreciation and amortization expense and accumulated depreciation and amortization, respectively.

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

(g) Physician guarantees

The Medical Center has entered into agreements with local physicians whereby it will guarantee monthly income, subject to stated maximums. The loans are to be forgiven if the physicians maintain a practice in the area for specified terms. During 2015, all loans were forgiven with the respective physicians. At June 30, 2014, physician guarantees totaled $96,242, and were included in other assets within the consolidated statement of net position.

(h) Patient service revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including 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 final settlements are determined. Patient service revenue is net of contractual adjustments and policy discounts of approximately $84,000,000 and $72,000,000 for the years ended June 30, 2015 and 2014, respectively. Approximately 26% and 28% of net patient service revenue was derived from Medicare for the years ended June 30, 2015 and 2014, respectively. Approximately 10% of net patient service revenue was derived from Medicaid/TennCare for the years ended June 30, 2015 and 2014.

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The costs of providing charity care are estimated based on the ratio of total costs to gross charges and amounted to approximately $436,000 and $594,000 for the years ended June 30, 2015 and 2014, respectively.

(i) Operating activities

The Medical Center defines operating activities as reported in the Consolidated Statements of Revenue, Expenses and Changes in Net Position as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including contributions and grants, as well as interest income and interest expense, are considered non-operating revenues and expenses.

(j) Employee benefit plans

Medical Center employees are covered under the Public Employee Pension Plan of Tennessee Consolidated Retirement System ("TCRS"), a defined benefit plan, or a 403(b) defined contribution plan.

(k) Pension

For purposes of measuring 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 Medical Center's participation in TCRS, and additions to/deductions from the Medical Center's fiduciary net position have been determined on the same basis as they are reported by TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS.

(l) Compensated absences

The Medical Center provides its full-time employees with paid days off for holiday, vacation, sick, and bereavement absences. The qualifying date for receiving annual vacation is the employees' full-time anniversary date and is based on the table which follows. Such days may be taken only after the employee has earned them. All earned days must be taken within 24 months from the anniversary date earned. Such liabilities have been accrued in the accompanying statement of net position.

Years of service	Days earned per year
1-7	10
8-15	15
16 or more	20

Effective July 1, 2014, the Medical Center modified the use of its sick day policy. Employees must use paid time off days for the first two days of an illness and paid sick days thereafter. No payment is made for accumulated sick leave when an employee terminates employment.

(m) Risk management

The Medical Center is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance is purchased for claims arising from such matters. The Medical Center is self-insured for employee health claims and judgments.

(n) Net position

The Medical Center's net position is classified in three components. The *net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the remaining balances of any outstanding borrowings used to finance the purchase or construction of those assets. The *restricted net position* is the noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts related to County contributions and bond indebtedness restricted for specific purposes. The *unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets*. The Medical Center first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. As of June 30, 2015 and 2014, there was no permanently or temporarily restricted net position.

(o) Income taxes

The Medical Center is a not-for-profit corporation as described in Chapter 176 of the Private Acts and is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

(p) Performance indicator

Excess of revenue over expenses (expenses over revenue) reflected in the accompanying Consolidated Statements of Revenue, Expenses and Changes in Net Position is a performance indicator.

(q) Adoption of new accounting pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The statement is effective for financial statements for fiscal years beginning after June 15, 2014. Therefore the Medical Center adopted this standard at the beginning of fiscal year 2015.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement relates to accounting and financial reporting for government combinations and disposals of government operations and is effective for financial statements for fiscal years beginning after December 15, 2013. Therefore the Medical Center adopted this standard at the beginning of fiscal year 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68.* The primary objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68. The statement requires that at transition, an entity recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning of the net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of Statement No. 68.

The adoption of these accounting standards, with the exception of Statement No. 68, did not have a material impact on the Medical Center's consolidated financial statements. The adoption of Statement No. 68 was incorporated in the Medical Center's consolidated financial statements through retrospective application to all periods presented and a cumulative adjustment to net position as of July 1, 2013.

The Medical Center adopted the provisions of Statements No. 68 and 71 as of June 30, 2014 and incorporated the provisions to the consolidated financial statements through retrospective application to all periods presented and a cumulative adjustment to net position as of July 1, 2013.

The Medical Center decreased net position by $3,496,419 as of July 1, 2013 to reflect the cumulative effect of the adoption and to record the initial net pension liability. The prior period consolidated financial statements have been revised to reflect this change in accounting. The effects of this adoption have been summarized below:

	As of and for the year ended June 30, 2014		
	As reported	Adjustment	As adjusted
Statement of Net Position			
Initial net pension liability	$ -	$ (3,496,419)	$ (3,496,419)
Net position at beginning of year	23,907,881	(3,496,419)	20,411,462
Net position at end of year	22,901,284	(3,496,419)	19,404,865

(r) New accounting pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard is effective for fiscal years beginning after June 15, 2015. Therefore, the Medical Center expects to adopt this standard at the beginning of fiscal year 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68*. This statement is applicable to the Medical Center with regard to clarification of certain provisions of Statement No. 68 including information that is required to be presented as notes to the ten-year schedules of required supplementary information. The requirements of this standard that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015. Therefore, the Medical Center expects to adopt this standard at the beginning of fiscal year 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* which amended Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the hierarchy of generally accepted accounting principles ("GAAP") to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for fiscal years beginning after June 15, 2015 and should be applied retroactively. Therefore, the Medical Center expects to adopt this standard at the beginning of fiscal year 2016.

The Medical Center is currently assessing the impact of adopting these accounting standards.

(s) Use of estimates

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

(t) Reclassifications

Certain reclassifications have been made to the 2014 consolidated financial statements in order for them to conform to the 2015 presentation. These reclassifications have no effect on net position or changes in net position as previously reported.

(u) Events occurring after reporting date

The Medical Center has evaluated events and transactions that occurred between June 30, 2015 and November 18, 2015, which is the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

(3) Third-party reimbursement programs

The Medical Center receives revenue under various third-party reimbursement programs which include Medicare, Medicaid, TennCare, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. The adjustments resulting from tentative or final settlements to estimated reimbursement amounts resulted in an increase to patient service revenue of approximately $24,000 and $145,000 for the years ended June 30, 2015 and 2014, respectively.

(a) Medicare

The Medical Center is paid for substantially all services rendered to inpatient Medicare program beneficiaries under prospectively determined rates-per-discharge. Those rates vary according to a classification system that is based on clinical, diagnostic, and other factors. The Medical Center is paid for outpatient and emergency medical services under a Medicare program known as the Ambulatory Payment Classification (APC) system. Under the APC system, outpatient services are classified into APC categories based on standard procedure codes for the service provided and payment for the APC categories are determined using prospectively determined Federal payment rates adjusted for geographical area wage differences. The Medical Center receives cash payments at an interim rate with final settlement determined after the Medical Center's submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare Prospective Payment System and the appropriateness of the patients' admissions are subject to validation reviews by the Medicare peer review organization.

(b) Medicaid

The Medicaid program reimburses HMCHRC for the cost of services rendered to Medicaid beneficiaries at a prospective rate which is based on the lower of the reimbursable cost of services rendered or a reimbursement cap set by Medicaid. The reimbursement cap is expressed as a per diem.

(c) TennCare

The State of Tennessee TennCare program is a managed care program which provides healthcare coverage to those previously eligible for Medicaid as well as the uninsured population. The Medical Center contracts with various managed care organizations (MCO's) which offer both Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) healthcare products. Reimbursement to the Medical Center is received through per diems, Diagnosis-Related Group (DRG) payments and discounted fee for service.

(d) Commercial payors

The Medical Center has entered into payment agreements with certain commercial insurance carriers, HMO's, and PPO's. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge and discounts from established rates.

(e) Credit concentration

The Medical Center grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. At June 30, 2015 and 2014, the Medical Center had net receivables from the Federal Government (Medicare) of approximately $1,700,000 and $1,640,000, respectively, and from Medicaid/TennCare of approximately $460,000 and $430,000, respectively.

(f) Meaningful use payments from Medicare and Medicaid

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for hospitals that implemented "meaningfully use" certified electronic health record (EHR) technology. In order to receive incentive payments, a hospital which is able to meet the meaningful use criteria must attest that during the EHR reporting period, the hospital used certified EHR technology and specify the technology used satisfied the required meaningful use objectives and associated measures for the applicable stage, and must specify the EHR reporting period and provide the result of each applicable measure for all patients admitted to the inpatient or emergency department of the hospital during the EHR reporting period for which a selected measure is applicable. A hospital may receive an incentive payment for up to four years, provided it successfully demonstrates meaningful use of certified EHR technology for the EHR reporting period. Hospitals that adopt a certified EHR system and are meaningful users can begin receiving incentive payments in any federal fiscal year from 2011 (October 1, 2010 - September 30, 2011) to 2015; however, the incentive payments will decrease for hospitals that first start receiving payments in federal fiscal year 2014 or 2015.

The Medical Center met meaningful use criteria during 2015 and 2014. As a result, the Medical Center recognized $646,199 from Medicare in 2015. No Medicaid meaningful use income was recognized in 2015 as the Medical Center received their final payment in 2014. The Medical Center recognized income of $316,677 and $242,005 from Medicaid and Medicare, respectively, in 2014. The Medical Center received all meaningful use funds related to fiscal year 2015 and 2014, prior to June 30, 2015 and 2014; therefore, no receivables were recorded at year end. HMCPS also received $51,000 and $148,750 of Medicare meaningful use funds in fiscal year 2015 and 2014, respectively. The income is reported as other revenue on the accompanying Consolidated Statements of Revenue, Expenses and Changes in Net Position.

(4) Inventories

A summary of inventories as of June 30, 2015 and 2014 is as follows:

	2015	2014
Pharmacy	$ 509,888	$ 477,394
Dietary	10,931	11,017
Departmental	761,791	797,611
	$ 1,282,610	$ 1,286,022

(5) Property and equipment

The major classifications and changes in property and equipment as of and for the years ended June 30, 2015 and 2014 are as follows:

	Balance at June 30, 2014	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2015
Land	$ 274,533	$ -	$ -	$ 274,533
Land improvements	202,147	-	(30,600)	171,547
Buildings and improvements	19,403,648	-	(57,959)	19,345,689
Equipment	10,305,508	1,486,709	(2,126,287)	9,665,930
Furniture and fixtures	330,357	-	(53,734)	276,623
Assets under capital lease	1,370,842	91,088	(70,687)	1,391,243
	31,887,035	1,577,797	(2,339,267)	31,125,565
Less allowance for depreciation and amortization:				
Land improvements	(198,846)	(1,116)	30,600	(169,362)
Buildings and improvements	(6,808,821)	(716,972)	47,598	(7,478,195)
Equipment	(7,673,999)	(864,723)	2,178,102	(6,360,620)
Furniture and fixtures	(210,774)	(27,343)	53,202	(184,915)
Assets under capital lease	(1,370,841)	(1,012)	7,938	(1,363,915)
	(16,263,281)	(1,611,166)	2,317,440	(15,557,007)
	15,623,754	(33,369)	(21,827)	15,568,558
Construction in progress	282,282	273,243	(543,337)	12,188
	$ 15,906,036	$ 239,874	$ (565,164)	$ 15,580,746

	Balance at June 30, 2013	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2014
Land	$ 274,533	$ -	$ -	$ 274,533
Land improvements	202,147	-	-	202,147
Buildings and improvements	19,397,848	5,800	-	19,403,648
Equipment	9,536,260	769,248	-	10,305,508
Furniture and fixtures	324,108	6,249	-	330,357
Assets under capital lease	1,370,842	-	-	1,370,842
	31,105,738	781,297	-	31,887,035
Less allowance for depreciation and amortization:				
Land improvements	(197,731)	(1,115)	-	(198,846)
Buildings and improvements	(6,088,482)	(720,339)	-	(6,808,821)
Equipment	(6,903,274)	(770,725)	-	(7,673,999)
Furniture and fixtures	(183,019)	(27,755)	-	(210,774)
Assets under capital lease	(1,355,841)	(15,000)	-	(1,370,841)
	(14,728,347)	(1,534,934)	-	(16,263,281)
	16,377,391	(753,637)	-	15,623,754
Construction in progress	180,134	487,894	(385,746)	282,282
	$ 16,557,525	$ (265,743)	$ (385,746)	$ 15,906,036

No interest costs were capitalized during the years ended June 30, 2015 or 2014.

(6) Ambulance service

The County paid the construction cost of a building to house ambulance facilities and has also purchased ambulances and related equipment, but the Medical Center is responsible for operating the ambulance service. Expenditures by the County since the Medical Center began operating the ambulance service in 1997 amount to $1,915,165 at June 30, 2015. This amount is not reflected within property and equipment in the accompanying consolidated financial statements. In addition, the County provides an annual subsidy to defray costs incurred in operating the ambulance service. For the years ended June 30, 2015 and 2014, the annual subsidy was $100,000 and $80,000, respectively, which is reflected within other nonoperating revenues on the accompanying consolidated statement of revenue, expenses and changes in net position. This annual allocation is in addition to the cumulative expenditures mentioned above.

(7) Long-term debt and capital lease obligations

The major types and changes in the Medical Center's long-term debt and capital lease obligations as of and for the years ended June 30, 2015 and 2014 is as follows:

	Balance at June 30, 2014	Additions	Reductions	Balance at June 30, 2015	Amounts Due Within One Year
Public Building Authority of the County of Montgomery, TN - Series 2003	$ 5,692,000	$ -	$ (255,000)	$ 5,437,000	$ 263,000
Tennessee Valley Electric Cooperative - Series 2007	77,500	-	(30,000)	47,500	30,000
Tennessee Valley Electric Cooperative - Series 2010	513,884	-	(82,224)	431,660	82,224
Capital lease obligations	1,871,603	-	(143,694)	1,727,909	147,283
	$ 8,154,987	$ -	$ (510,918)	$ 7,644,069	$ 522,507

	Balance at June 30, 2013	Additions	Reductions	Balance at June 30, 2014	Amounts Due Within One Year
Public Building Authority of the County of Montgomery, TN - Series 2003	$ 5,939,000	$ -	$ (247,000)	$ 5,692,000	$ 255,000
Tennessee Valley Electric Cooperative - Series 2007	107,500	-	(30,000)	77,500	30,000
Public Building Authority of the County of Montgomery, TN - Series 2002	596,108	-	(82,224)	513,884	82,224
Capital lease obligations	2,011,793	-	(140,190)	1,871,603	143,694
	$ 8,654,401	$ -	$ (499,414)	$ 8,154,987	$ 510,918

During July 2003, the Medical Center entered into a loan agreement with the Public Building Authority of the County of Montgomery, Tennessee (Building Authority) whereby, the Building Authority loaned the Medical Center $8,000,000 for improvements to the Medical Center. The loan agreement bears interest at an adjustable rate (.57% as of June 30, 2015), with variable monthly payments, and is due May 31, 2031. The variable interest rate is adjusted weekly as determined by the remarketing agent. The loan is guaranteed by Hardin County.

During January 2007, the Medical Center borrowed $300,000 from the Tennessee Valley Electric Cooperative under the Rural Economic Loan and Grant Program. The proceeds were used to finance new computer software. The note bears no interest and principal is to be repaid in monthly installments of $2,500 through January 2017. Security is a certificate of deposit and an irrevocable standby letter of credit.

During July 2010, the Medical Center borrowed an additional $740,000 from the Tennessee Valley Electric Cooperative under the Rural Economic Loan and Grant Program. The proceeds were used to finance construction on the cancer treatment center. The note bears no interest and principal is to be repaid in monthly installments of $6,852 through September 2020. Security is a certificate of deposit and an irrevocable standby letter of credit.

Pursuant to the agreements for the Building Authority loans, if the principal of all bonds issued under such loans are accelerated, and the bonds are paid by the remarketing agent, the repayment schedule applicable to such loans shall be recalculated over a term of 60 months from the date of such acceleration. The interest rate on the loan amounts after such acceleration shall adjust to the prime rate as defined in the agreements.

The Medical Center has entered into capital lease agreements to finance the acquisition of certain equipment. The agreements require monthly principal and interest payments of $15,692 through November 2025.

A summary of approximate future maturities and interest of long-term debt and capital lease obligations as of June 30, 2015 are as follows:

	Bonds		
Year	Principal	Estimated Interest	Total Payments
2016	$ 263,000	$ 31,000	$ 294,000
2017	272,000	29,000	301,000
2018	281,000	28,000	309,000
2019	291,000	26,000	317,000
2020	300,000	25,000	325,000
2021	310,000	23,000	333,000
2022	321,000	21,000	342,000
2022	331,000	19,000	350,000
2024	342,000	18,000	360,000
2025	354,000	16,000	370,000
2026	366,000	14,000	380,000
2027	378,000	11,000	389,000
2028	391,000	9,000	400,000
2029	404,000	7,000	411,000
2030	417,000	5,000	422,000
2031	416,000	2,000	418,000
	$ 5,437,000	$ 284,000	$ 5,721,000

	Other Long-term Debt		
Year	Principal	Estimated Interest	Total Payments
2016	$ 112,000	$ -	$ 112,000
2017	100,000	-	100,000
2018	82,000	-	82,000
2019	82,000	-	82,000
2020	82,000	-	82,000
2021	21,000	-	21,000
	$ 479,000	$ -	$ 479,000

	Capital Lease Obligations		
Year	Principal	Estimated Interest	Total Payments
2016	$ 148,000	$ 41,000	$ 189,000
2017	151,000	37,000	188,000
2018	155,000	34,000	189,000
2019	159,000	30,000	189,000
2020	163,000	26,000	189,000
2021	167,000	22,000	189,000
2022	171,000	18,000	189,000
2023	175,000	13,000	188,000
2024	179,000	9,000	188,000
2025	184,000	4,000	188,000
2026	76,000	1,000	77,000
	$ 1,728,000	$ 235,000	$ 1,963,000

	Total		
Year	Principal	Estimated Interest	Total Payments
2016	$ 523,000	$ 72,000	$ 595,000
2017	523,000	66,000	589,000
2018	518,000	62,000	580,000
2019	532,000	56,000	588,000
2020	545,000	51,000	596,000
2021	498,000	45,000	543,000
2022	492,000	39,000	531,000
2023	506,000	32,000	538,000
2024	521,000	27,000	548,000
2025	538,000	20,000	558,000
2026	442,000	15,000	457,000
2027	378,000	11,000	389,000
2028	391,000	9,000	400,000
2029	404,000	7,000	411,000
2030	417,000	5,000	422,000
2031	416,000	2,000	418,000
	$ 7,644,000	$ 519,000	$ 8,163,000

(8) Pension plan

(a) General information about the pension plan

Plan description

Employees of the Medical Center are provided a defined benefit pension plan through TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments ("COLAs") after retirement. A COLA is granted each July for annuitants retired prior to the second day of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms

At the measurement date of June 30, 2014, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	130
Inactive employees entitled to but not yet receiving benefits	149
Active employees	71
	350

Effective July 1, 2008, the Medical Center closed the plan to new participants. Those employees who were employed by the Medical Center prior to July 1, 2008 are eligible to accrue salary and service credit in the TCRS after the date the plan was closed. The Medical Center is responsible to continue to fund the retirement cost of the plan.

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. For employees hired before July 1, 1986, the Medical Center has adopted a non-contributory retirement plan for its employees by assuming employee contributions up to 5% of annual covered payroll. Employees hired on July 1, 1986 and after contribute 5% of salary. The Medical Center makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for the Medical Center were $306,332 based on a rate of 10.90% of covered payroll for 2015. By law, employer contributions are required to be paid. The TCRS may intercept the Medical Center's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution ("ADC") and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

(b) Net pension liability

The Medical Center's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability as of the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97 to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost of living adjustments	2.5%

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established 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 inflation of 3%. 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	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33 %
Developed market international equity	6.26%	17 %
Emerging market international equity	6.40%	5 %
Private equity and strategic lending	4.61%	8 %
U.S. fixed income	0.98%	29 %
Real estate	4.73%	7 %
Short-term securities	0.00%	1 %
		100 %

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above, inclusive of inflation.

Discount rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Medical Center will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(c) Changes in the net pension liability

		Increase (Decrease)	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 6/30/13	$ 30,088,284	$ 26,302,548	$ 3,785,736
Changes for the year:			
Service cost	396,241	-	396,241
Interest	2,224,956	-	2,224,956
Differences between expected and actual experience	(524,782)	-	(524,782)
Contributions - employer	-	289,317	(289,317)
Contributions - employee	-	140,024	(140,024)
Net investment income	-	4,259,689	(4,259,689)
Benefit payments, including refunds of employee contributions	(1,636,901)	(1,636,901)	-
Administrative expense	-	(4,459)	4,459
Net changes	459,514	3,047,670	(2,588,156)
Balance at 6/30/14	$ 30,547,798	$ 29,350,218	$ 1,197,580

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Medical Center calculated using the discount rate of 7.5%, as well as what the net position liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5%) or one-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Medical Center's net position liability (asset)	$ 4,910,944	$ 1,197,580	$ (1,893,393)

(d) Pension expense (income) and deferred outflows of resources and deferred inflows of resources related to the pension

Pension income

For the year ended June 30, 2015, the Medical Center recognized pension income of $170,489.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2015, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 262,391
Net difference between projected and actual earnings on pension plan investments	-	1,865,959
Contributions subsequent to the measurement date of June 30, 2014	306,332	-
Total	$ 306,332	$ 2,128,350

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction to net pension liability in the following measurement period.

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

Year Ended June 30:	
2016	$ (728,880)
2017	(466,490)
2018	(466,490)
2019	(466,490)
2020	-
Thereafter	-
	$ (2,128,350)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

(e) Payable to the pension plan

At June 30, 2015 and 2014, the Medical Center reported a payable of $29,459 and $27,980, respectively, for the outstanding amount of required contributions to the pension plan, respectively.

(9) Defined contribution plan

During July 2008 the Medical Center began providing a 403(b) plan which covers full-time employees who choose not to participate, or are not allowed to participate, in the defined benefit pension plan described above. The Medical Center contributes 3% of compensation plus it will match half of each employee's contribution (up to an additional 3%). The total retirement plan expense associated with this plan for the years ended June 30, 2015 and 2014 was $463,645 and $501,673, respectively. Employee contributions to the plan for the years ended June 30, 2015 and 2014 were $451,329 and $458,076, respectively.

(10) Commitments and contingencies

Operating commitments

The Medical Center leases various equipment and space under operating lease agreements. Rent expense was $387,969 and $425,533 in 2015 and 2014, respectively. The Medical Center does not have any material future minimum payments as a majority of the leases are on month-to-month terms. It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the expense for 2015.

The Medical Center generates rental income primarily from operating leases of medical office buildings and houses. Rental income was $201,050 and $208,043 in 2015 and 2014, respectively, and is included in other operating revenue. Lease terms are yearly or month-to-month.

Insurance

The Medical Center maintains commercial insurance on a claims-made basis for medical malpractice liabilities. Insurance coverages are $1,000,000 individually and $3,000,000 in the aggregate annually. Management intends to maintain such coverages in the future. The Medical Center is involved in litigation arising in the ordinary course of business; however, management is of the opinion that insurance coverages are adequate to cover any potential losses on asserted claims. Management is unaware of any incidents which would ultimately result in a loss in excess of the Medical Center's insurance coverages.

The Medical Center is self-insured for a portion of employee medical and other healthcare benefits and workers' compensation claims. The risk of loss retained by the Medical Center is limited to $80,000 per year for each employee's medical claims. The Medical Center has purchased excess insurance to provide coverage for claims in excess of the self-insured plan. Claims expenditures and liabilities are reported under the self-insurance plan when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Reserves included within accrued expenses on the accompanying consolidated statement of net position, related to employee medical and other healthcare benefits, amounted to $180,000 and $222,772 in 2015 and 2014, respectively.

Healthcare industry

The delivery of personal health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Medical Center is insured with respect to medical malpractice risk on a claims-made basis. The Medical Center also maintains insurance for general liability, director and officer liability and property. Certain policies are subject to deductibles. In addition to the insurance coverage provided, the Medical Center indemnifies certain officers and directors for actions taken on behalf of the Medical Center. Management is not aware of any claims against the Medical Center which would have a material financial impact.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigation and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Medical Center is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations. During fiscal year 2013, management became aware of certain compliance matters related to the Medical Center. These matters were addressed and a reserve of $190,000 was included within accrued expenses on the accompanying consolidated statement of net position at June 30, 2014. These matters were resolved during 2015 upon payment of the $190,000.

Management continues to implement policies, procedures, and a compliance overview organizational structure to enforce and monitor compliance with the Health Insurance Portability and Accountability Act of 1996 and other government statues and regulations. the Medical Center's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

The Centers for Medicare and Medicaid Services ("CMS") have implemented a Recovery Audit Contractors ("RAC") program. The purpose of the program is to reduce improper Medicare and Medicaid payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. While management believes that all Medicare and Medicaid billings are proper and adequate support is maintained, certain aspects of Medicare and Medicaid billing, coding and support are subject to interpretation and may be viewed differently by the RAC auditors. At June 30, 2015 and 2014, the Medical Center recorded a reserve for potential recoveries. The reserve of $100,000 and $285,674 is included within accrued expenses on the consolidated statement of net position at June 30, 2015 and 2014, respectively. The reserve is based on the percentage success rate and the total dollar of potential claims that are under audit.

Healthcare Reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements.

Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. The State of Tennessee has elected not to adopt Medicaid expansion, as proposed under the Health Care Reform Legislation, at this time. As such, the Medical Center does not anticipate significant impact to occur for the Medicaid population. While the full impact of the Health Care Reform Legislation is not fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Medical Center's operations.

HARDIN MEDICAL CENTER
(a component unit of Hardin County)

Required Supplementary Information

June 30, 2015 and 2014

Schedule of Changes in Net Pension Liability and Related Ratios Based on Participation in the Public Employee Pension Plan of Tennessee Consolidated Retirement System

	Year Ending June, 30, 2014
Total pension liability:	
Service cost	$ 396,241
Interest	2,224,956
Changes in benefit terms	-
Differences between actual and expected experience	(524,782)
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	(1,636,901)
Net change in total pension liability	459,514
Total pension liability - beginning	30,088,284
Total pension liability - ending (a)	$ 30,547,798
Plan fiduciary net position:	
Contributions - employer	$ 289,317
Contributions - employee	140,024
Net investment income	4,259,689
Benefit payments, including refunds of employee contributions	(1,636,901)
Administrative expense	(4,459)
Net change in plan fiduciary net position	3,047,670
Plan fiduciary net position - beginning	26,302,548
Plan fiduciary net position - ending (b)	$ 29,350,218
Net Pension Liability - ending (a) - (b)	$ 1,197,580
Plan fiduciary net position as a percentage of total pension liability	96.08%
Covered-employee payroll	$ 3,525,913
Net pension liability as a percentage of covered-employee payroll	33.97%

This is a ten year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until ten years of information is available.

Schedule of Contributions Based on Participation in the Public Employee Pension Plan of Tennessee Consolidated Retirement System

	Years Ending June 30, 2014	Years Ending June 30, 2015
Actuarially determined contribution	$ 289,317	$ 306,332
Contributions in relation to the actuarially determined contribution	289,317	306,332
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 3,525,913	$ 2,811,246
Contributions as a percentage of covered-employee payroll	8.21%	10.90%

This is a ten year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until ten years of information is available.

HARDIN MEDICAL CENTER
(a component unit of Hardin County)

Required Supplementary Information

June 30, 2015 and 2014

Notes to the Required Supplementary Information

Valuation date: Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	2 years
Asset valuation	10-year smoothed within a 20% corridor to market value
Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5%

HARDIN MEDICAL CENTER

Consolidating Schedule of Net Position Information

June 30, 2015

	Hospital and Physician Services	Health and Rehabilitation Center	Eliminations	Total
Assets:				
Cash and cash equivalents	$ 14,238,745	$ 156,827	$ -	$ 14,395,572
Investments	3,693,414	-	-	3,693,414
Patient accounts receivable, net	2,270,738	227,664	-	2,498,402
Other accounts receivable	12,828	-	-	12,828
Inventories	1,282,610	-	-	1,282,610
Prepaid expenses and other current assets	103,998	-	-	103,998
Total current assets	21,602,333	384,491	-	21,986,824
Property and equipment, net	15,024,973	555,773	-	15,580,746
Other assets	180,433	9,292	-	189,725
Due from Health and Rehabilitation Center	4,308,018	-	(4,308,018)	-
Total assets	41,115,757	949,556	(4,308,018)	37,757,295
Deferred outflows of resources - employer pension contributions	306,332	-	-	306,332
Liabilities:				
Current portion of long-term debt	375,224	-	-	375,224
Current portion of capital lease obligations	147,283	-	-	147,283
Accounts payable	1,665,306	100,802	-	1,766,108
Accrued expenses and other current liabilities	2,025,403	140,396	-	2,165,799
Total current liabilities	4,213,216	241,198	-	4,454,414
Long-term debt, excluding current portion	5,540,936	-	-	5,540,936
Capital lease obligations, excluding current portion	1,580,626	-	-	1,580,626
Due to Hospital	-	4,308,018	(4,308,018)	-
Net pension liability	1,197,580	-	-	1,197,580
Total liabilities	12,532,358	4,549,216	(4,308,018)	12,773,556
Deferred inflows of resources - pension	2,128,350	-	-	2,128,350
Net position:				
Net investment in capital assets	7,380,904	555,773	-	7,936,677
Unrestricted net position	19,380,477	(4,155,433)	-	15,225,044
Total net position	$ 26,761,381	$ (3,599,660)	$ -	$ 23,161,721

See accompanying independent auditors' report.

HARDIN MEDICAL CENTER

Consolidating Schedule of Revenue, Expenses, and Changes in Net Position Information

Year ended June 30, 2015

	Hospital	Physician Services	Health and Rehabilitation Center	Eliminations	Total
Operating revenue:					
Patient service revenue, net	$ 31,202,688	$ 2,535,524	$ 5,604,685	$ -	$ 39,342,897
Other revenue	1,058,509	-	-	-	1,058,509
Total operating revenue	32,261,197	2,535,524	5,604,685	-	40,401,406
Expenses:					
Salaries and wages	11,815,759	2,691,160	2,500,676	-	17,007,595
Employee benefits	2,131,133	168,843	638,788	-	2,938,764
Purchased services	3,595,709	128,268	519,086	-	4,243,063
Consultants	-	-	367,383	-	367,383
Insurance	176,802	28,142	127,654	-	332,598
Supplies	6,439,758	20,422	1,106,324	-	7,566,504
Utilities	227,404	19,725	89,977	-	337,106
Repairs and maintenance	1,271,745	3,751	104,382	-	1,379,878
Rent	330,069	57,900	-	-	387,969
Professional recruitment	186,616	-	-	-	186,616
Depreciation and amortization	1,539,724	-	71,442	-	1,611,166
Other expenses	378,912	13,156	321,481	-	713,549
Total expenses	28,093,631	3,131,367	5,847,193	-	37,072,191
Operating income (loss)	4,167,566	(595,843)	(242,508)	-	3,329,215
Nonoperating income:					
Interest income	113,806	-	194	-	114,000
Interest expense	(94,801)	-	-	-	(94,801)
Contributions	135,572	-	-	-	135,572
Pension income	170,489	-	-	-	170,489
Other revenue	107,402	-	(5,021)	-	102,381
Nonoperating income	432,468	-	(4,827)	-	427,641
Excess of revenue over expenses (expenses over revenue)	4,600,034	(595,843)	(247,335)	-	3,756,856
Net position at beginning of year, as restated	26,147,620	(3,390,430)	(3,352,325)	-	19,404,865
Net position at end of year	$ 30,747,654	$ (3,986,273)	$ (3,599,660)	$ -	$ 23,161,721

See accompanying independent auditors' report.

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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 Commissioners
Hardin Medical Center
Savannah, Tennessee:

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 consolidated financial statements of Hardin Medical Center (the "Medical Center"), a component unit of Hardin County, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the consolidated financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated November 18, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Medical Center'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center'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 consolidated 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's consolidated 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 consolidated 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*.

We noted certain matters that we reported to management of the Medical Center in a separate letter dated November 18, 2015.

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 Medical Center'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 Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CBMC, P.C.

Brentwood, Tennessee
November 18, 2015