

**AUDITED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
OF
LINCOLN COUNTY HEALTH SYSTEM
LINCOLN COUNTY, TENNESSEE
Years Ended June 30, 2015 and 2014**

**LINCOLN COUNTY HEALTH SYSTEM
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Years Ended June 30, 2015 and 2014

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PUTMAN & HANCOCK
Certified Public Accountants

219 East College Street
P.O. Box 722
Fayetteville, Tennessee 37334

(931) 433-1040
Fax (931) 433-9290

INDEPENDENT AUDITORS' REPORT

To the Health System Committee
Lincoln County Health System
Lincoln County, Tennessee

We have audited the accompanying financial statements of the Lincoln County Health System 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Opinion

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

Emphasis of Matter

As discussed in Note A, the financial statements present only the Lincoln County Health System and do not purport to, and do not, present fairly the financial position of Lincoln County, Tennessee, as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as other financial information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Lincoln County Health System.

The accompanying financial information listed as other financial information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015 on our consideration of Lincoln County Health System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln County Health System's internal control over financial reporting and compliance.

Putman & Hancock

Fayetteville, Tennessee
October 28, 2015

Lincoln Medical Center
106 Medical Center Blvd.
P.O. Box 637
Fayetteville, TN 37334
Phone: (931) 438-1100
Fax: (931) 438-7456

**Donalson Care Center
Assisted Living and
Skilled Care**
1681 Winchester Hwy.
P.O. Box 838
Fayetteville, TN 37334
Phone: (931) 433-7156
Fax: (931) 433-6942

Lincoln Care Center
501 Amana Ave.
P.O. Box 838
Fayetteville, TN 37334
Phone: (931) 433-6146
Fax: (931) 433-0816

**Lincoln Medical Center
EMS**
106 Medical Center Blvd.
P.O. Box 637
Fayetteville, TN 37334
Phone: (931) 438-7409
Fax: (931) 438-7407

**Patrick
Rehab-Wellness
Center**
1001 Huntsville Hwy.
Fayetteville, TN 37334
Phone: (931) 433-0273
Fax: (931) 433-0378

**Lincoln Medical Home
Health and Hospice**
1797 Wilson Pkwy.
Fayetteville, TN 37334
Phone: (931) 433-8088
Fax: (931) 433-8086

**Sunrise Behavioral
Health Services**
1681 Winchester Hwy.
Fayetteville, TN 37334
Phone: 931-438-0263
Fax: 931-438-0313

LINCOLN COUNTY HEALTH SYSTEM



Our discussion and analysis of Lincoln County Health System's (the "System's") financial performance provides an overview of the System's financial activities for the fiscal years ended June 30, 2015 and 2014. Please read it in conjunction with the System's financial statements, which begin on page 10.

Financial Highlights

- The System reported operating income in 2015 of \$839,867 due primarily to in a decrease in salary and benefits expense of over \$511K resulting from favorable medical claims experience, a favorable pension expense adjustment, and a reduction in manpower in the Care Centers to right size the facility staff correspondingly with the decline in Intermediate Care census. This operational improvement coupled with the receipt of \$807,133 in Medicare EHR payments contributed to a positive gain overall. In comparison, the System reported an operating income of \$301,123 in 2014 due primarily to a decline in supply and other operating expenses. The resulting operating margin for 2015 was 2.1% compared to .8% in 2014.
- The System's net position increased by \$486,554 or 2.0 percent in 2015 compared to an increase in net position in 2014 of \$36, 873 or 0.2 percent.
- The System's net patient accounts receivable days outstanding was 41 days for 2015 and accounts receivable decreased over \$419K from prior year assisting the System to meet working capital needs.
- Operating cash increased over \$365K from prior year and operating cash days on hand increased to 69 days in 2015 compared to 66 days in 2014 and 59 days in 2013.
- Total bank balance of cash deposits, including special funds internally designated for capital improvements, debt service, and restricted contributions, totaled \$15,362,816 as of June 30, 2015. This increased from the 2014 level of \$14,884,229. All cash balances are either insured by FDIC or the Tennessee Bank Collateral Pool.

Use of this Annual Report

The System's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the System, including resources held by the System but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Our analysis of the System's finances begins on this page. One of the most important questions asked about the System's finances is, "Is the System as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the System's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the System's net position and changes in them. You can think of the System's net position - the difference between assets and liabilities - as one way to measure the System's financial health, or financial position. Over time, increases or decreases in the System's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the System's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the System.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The System's Net Position

The System's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 10. The System's net position increased in 2015 by \$486,554 (2.0 percent) compared to a small increase in 2014 of \$36,873 (0.2 percent) as presented in Table 1.

Table 1: Statement of Net Position

	<u>2015</u>	<u>2014</u> (Restated)
Assets:		
Current assets	\$ 13,665,695	\$ 12,929,905
Capital assets, net	15,590,633	16,968,452
Pension asset, net	1,434,964	-
Other noncurrent assets	<u>9,508,645</u>	<u>9,566,294</u>
Total Assets	<u>40,199,937</u>	<u>39,464,651</u>
Deferred outflows of resources:		
Deferred charge on refundings	382,476	427,532
Deferred outflow related to pension	<u>390,910</u>	<u>432,424</u>
Total Deferred Outflows	773,386	859,956
Liabilities:		
Long-term liabilities, including total debt	11,826,296	12,732,005
Pension liability, net	-	58,966
Other	<u>3,392,996</u>	<u>3,441,325</u>
Total Liabilities	<u>15,219,292</u>	<u>16,232,296</u>
Deferred inflows of resources:		
Deferred inflow related to pension	<u>1,175,166</u>	-
Total Deferred Inflows	1,175,166	-
Net position:		
Net investment in capital assets	4,146,813	4,663,979
Restricted:		
Bond indenture debt service	1,083,884	1,083,772
Pension	650,708	373,458
Other purposes	67,806	68,878
Unrestricted	<u>18,629,654</u>	<u>17,902,224</u>
Total Net Position	<u>\$ 24,578,865</u>	<u>\$ 24,092,311</u>

The System's Net Position (Continued)

Two significant drivers led to the change in the System's assets for 2015. Estimated third party receivables increased \$766,366 due largely to a significant increase due from Medicare as the Periodic Interim Payments ("PIP") lagged in providing appropriate reimbursement levels during 2015. The other significant change stems from the implementation of the new GASB reporting for Pensions which established the recording of Pension assets and liabilities. This accounting reporting change resulted in the first time reporting of Net Pension assets of \$1,434,964 in 2015 which led to the significant increase in other non-current assets for the year as described in more detail in the System's financial statements in Note R.

Operating Results and Changes in the System's Net Position

A summary of the System's operating results and changes in net position is presented below in Table 2.

Table 2: Statement of Revenues Expenses, and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Net patient service revenues	\$ 36,873,826	\$ 36,653,089
Other operating revenues	<u>2,299,568</u>	<u>2,372,199</u>
Total operating revenues	39,173,394	39,025,288
Operating Expenses:		
Salaries and benefits	21,714,092	22,226,063
Fees to individuals and organizations	5,852,217	5,871,002
Medical supplies and drugs	4,473,849	4,366,672
Depreciation	1,755,287	2,055,036
Other operating expenses	<u>4,538,082</u>	<u>4,205,392</u>
Total operating expenses	<u>38,333,527</u>	<u>38,724,165</u>
Income From Operations	<u>839,867</u>	<u>301,123</u>
Nonoperating Revenues and (Expenses):		
Investment income	64,382	68,531
Interest expense	(390,230)	(418,295)
Amortization	(26,657)	(26,657)
Noncapital grants and contributions	22,813	28,238
Other nonoperating revenues and expenses, net	<u>(58,162)</u>	<u>63,633</u>
Total nonoperating revenues (expenses), net	<u>(387,854)</u>	<u>(284,550)</u>
Excess of Revenues Over Expenses	452,013	16,573
Capital contributions	<u>34,541</u>	<u>20,300</u>
Change in net position	486,554	36,873
Total net position, at beginning of year, as restated	<u>24,092,311</u>	<u>24,055,438</u>
Total net position, at end of year	<u>\$ 24,578,865</u>	<u>\$ 24,092,311</u>

Operating Income

The overall change in the System's net position is its operating income – generally, the difference between net patient service revenues and the expenses incurred to perform those services. The System reported an operating income of \$839,867 in 2015. Operating income in 2015 increased \$538,744 from an operating income reported in 2014 of \$301,123.

The primary components of this change in operating income for 2015 was due to the following events:

- Net patient revenues increased \$220,737 in 2015 due largely to heightened activity. In the Hospital setting, inpatient acute admissions increased 27% due largely to continued physician recruitment efforts and a 14% increase in Geropsych admissions during 2015. In the Care Centers arena, skilled nursing days continued their uptick trend posting a 22% increase in activity over 2014. The only sector to incur a decline was the intermediate care arena where due to State initiatives and reduced funding for institutional elderly care the activity fell off 15% which somewhat stymied overall net patient revenue growth for 2015. The hospital also updated its reserve methodology for its allowance for bad debts which also had an impact on net revenues in 2015.
- A decrease in wages/benefits expense in 2015 of \$511,971 from prior year resulted from a combination of a favorable Pension expense reduction of \$278K coupled with favorable medical claims experience as well as staffing reductions garnered in the Care Centers with the decline in activity.

Total operating revenues increased only slightly in 2015 compared to 2014 primarily due to the hospital receiving less meaningful use incentive payments in 2015 (\$807K) vs. 2014 (\$1,289K) which offset some of the operating revenue growth.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of interest revenue, investment earnings and gain (losses) on the disposal of fixed assets. The major driver here in 2015 was a loss posted on the disposal of some old renovation plan drawings (\$58,162). In 2014, the Hospital posted a gain on disposal of equipment for \$63,633 when the proceeds received from insurance on a casualty loss exceeded the net book values of these items.

Grants, Contributions and Endowments

The System receives grants and contributions from various state and federal agencies for specific programs. These are discussed in detail in Note A to the financial statements.

The System is eligible but has not received any proceeds from an endowment that is used to aid indigent patients in the last two years.

The System's Cash Flow

Changes in the System's cash flows are consistent with changes in operating incomes and nonoperating revenues and expenses, discussed earlier. The System generated cash flows from operating activities in 2015 of \$2,062,876. In 2014, the System generated a similar amount of \$2,027,075.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the System had \$15,590,633 invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2014, the System had \$16,968,452 invested in capital assets, net of accumulated depreciation. Additions to capital assets in 2015 and 2014 were approximately 30% of the depreciation expense for said periods leading to the decline in the net capital assets position.

Debt

At the end of 2015, the System had \$11,680,380 in revenue bonds, capital lease obligations and notes payable obligations outstanding as detailed in Note H to the financial statements. The System's formal debt issuances - revenue notes - cannot be issued without approval of the Lincoln County Board of Commissioners. The amount of debt issued is subject to limitations that apply to the County and its component units as a whole. There have been no changes in the County's debt ratings in the past two years.

Other Economic Factors

Payment methodologies and reimbursement in the future are subject to ever changing regulations and laws which will have an impact on the system's financial position and results of operations.

Hospitals have faced many payment reductions due to the Affordable Care Act (ACA), sequestration, high deductible insurance plans, and the rising number of uninsured patients. One part of the ACA includes efforts to increase the number of U.S. citizens and legal aliens with health insurance which began January 2014, however, to date, those gaining access to insurance coverage through these federal exchanges have been insignificant. Tennessee is also the only state not to have a permanent Medicaid Disproportionate Care Payment in place due to the TennCare waiver so Tennessee Hospitals are in desperate need of an expansion of TennCare coverage to help mitigate the rise in uncompensated care and offset Federal cutbacks enacted.

The System is continually evaluating the addition of services that we do not currently offer as well as recruiting physicians to the Lincoln County service area in order to better serve the healthcare needs of those we serve in and around Lincoln County.

The System continues to strive to provide outstanding clinical care through improvement of quality and patient satisfaction scores. We value the trust and commitment of the community's support.

Contacting the System's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, at Lincoln County Health System, 106 Medical Center Blvd., Fayetteville, TN 37334.

**LINCOLN COUNTY HEALTH SYSTEM
STATEMENTS OF NET POSITION**

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,954,348	\$ 6,589,229
Restricted cash	35,570	33,721
Accounts receivable, net of allowance for doubtful accounts of \$1,860,848 (2015) and \$1,855,296 (2014)	4,450,568	4,869,748
Estimated third-party payor settlements receivable	1,140,103	373,737
Supplies, at cost	717,331	712,559
Prepaid expenses	111,775	119,093
Other assets	256,000	231,818
Total Current Assets	13,665,695	12,929,905
NONCURRENT ASSETS:		
Special Funds	9,316,454	9,281,015
Capital assets, net of accumulated depreciation	15,590,633	16,968,452
Other assets:		
Investment in insurance fund	178,382	152,995
Notes receivable, net	13,809	132,284
Pension asset, net	1,434,964	-
Total Noncurrent Assets	26,534,242	26,534,746
TOTAL ASSETS	40,199,937	39,464,651
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refundings	382,476	427,532
Deferred outflow related to pension	390,910	432,424
TOTAL DEFERRED OUTFLOWS	773,386	859,956
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Current maturities of long-term debt	908,222	887,310
Accounts payable	1,105,818	1,178,664
Accrued expenses:		
Salaries and payroll taxes	925,994	898,967
Compensated absences	1,007,768	1,028,049
Interest	60,231	63,515
Other	257,615	238,409
Patient trust funds	35,570	33,721
Total Current Liabilities	4,301,218	4,328,635
NONCURRENT LIABILITIES:		
Long-term debt, net of current maturities	10,918,074	11,844,695
Pension liability, net	-	58,966
TOTAL LIABILITIES	15,219,292	16,232,296
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow related to pension	1,175,166	-
TOTAL DEFERRED INFLOWS	1,175,166	-
NET POSITION		
Net investment in capital assets	4,146,813	4,663,979
Restricted:		
Bond indenture debt service	1,083,884	1,083,772
Pension	650,708	373,458
Other purposes	67,806	68,878
Unrestricted	18,629,654	17,902,224
TOTAL NET POSITION	\$ 24,578,865	\$ 24,092,311

The accompanying notes are an integral part of these financial statements.

**LINCOLN COUNTY HEALTH SYSTEM
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES:		
Net patient service revenue, less provision for bad debts of \$4,891,210 (2015) and \$4,147,133 (2014)	\$ 36,873,826	\$ 36,653,089
Other operating revenue	<u>2,299,568</u>	<u>2,372,199</u>
Total Operating Revenues	39,173,394	39,025,288
OPERATING EXPENSES:		
Employee compensation and benefits	21,714,092	22,226,063
Fees to individuals and organizations	5,852,217	5,871,002
Supplies	4,473,849	4,366,672
Other expenses	4,538,082	4,205,392
Depreciation	<u>1,755,287</u>	<u>2,055,036</u>
Total Operating Expenses	<u>38,333,527</u>	<u>38,724,165</u>
INCOME FROM OPERATIONS	<u>839,867</u>	<u>301,123</u>
NONOPERATING REVENUES AND (EXPENSES):		
Investment income	64,382	68,531
Interest expense	(390,230)	(418,295)
Amortization	(26,657)	(26,657)
Noncapital grants and contributions	22,813	28,238
Gain (loss) on disposal of capital assets	<u>(58,162)</u>	<u>63,633</u>
Nonoperating Revenues and (Expenses), net	<u>(387,854)</u>	<u>(284,550)</u>
EXCESS OF REVENUES OVER EXPENSES	452,013	16,573
Capital Contributions	<u>34,541</u>	<u>20,300</u>
CHANGE IN NET POSITION	486,554	36,873
Total Net Position, at beginning of year, as restated	<u>24,092,311</u>	<u>24,055,438</u>
TOTAL NET POSITION, AT END OF YEAR	<u>\$ 24,578,865</u>	<u>\$ 24,092,311</u>

The accompanying notes are an integral part of these financial statements.

**LINCOLN COUNTY HEALTH SYSTEM
STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 36,855,999	\$ 36,517,374
Other operating cash receipts	3,394,894	3,431,865
Cash paid to employees for wages and benefits	(21,995,128)	(22,131,927)
Cash paid to suppliers for goods and services	<u>(16,192,889)</u>	<u>(15,790,237)</u>
Net Cash Provided by Operating Activities	<u>2,062,876</u>	<u>2,027,075</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	<u>22,813</u>	<u>28,238</u>
Net Cash Provided by Noncapital Financing Activities	<u>22,813</u>	<u>28,238</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to capital assets, net	(503,230)	(530,313)
Capital contributions	34,541	20,300
Principal payments on long-term debt	(887,311)	(871,819)
Interest paid on long-term debt, net	<u>(393,513)</u>	<u>(409,440)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(1,749,513)</u>	<u>(1,791,272)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	68,987	83,676
(Increase) in special funds	<u>(40,044)</u>	<u>(51,756)</u>
Net Cash Provided by Investing Activities	<u>28,943</u>	<u>31,920</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	365,119	295,961
CASH AND CASH EQUIVALENTS, beginning of year	<u>6,589,229</u>	<u>6,293,268</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,954,348</u>	<u>\$ 6,589,229</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income (loss) from operations	\$ 839,867	\$ 301,123
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,755,287	2,055,036
Provision for bad debts	4,891,210	4,147,133
Provision for note receivable arrangements	118,475	139,902
Investment in insurance funds, net	(25,387)	7,920
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(4,472,030)	(4,670,590)
(Increase) decrease in supplies	(4,772)	615
(Increase) in pension assets	(1,434,964)	-
Decrease in deferred outflow related to pension	41,514	-
Decrease in prepaid expenses	7,318	88,824
(Increase) in other assets	(87,815)	(78,923)
Increase (decrease) in accounts payable	58,387	(38,637)
Increase (decrease) in accrued expenses	25,952	(36,932)
(Decrease) in net pension liability	(58,966)	-
Increase in deferred inflow related to pension	1,175,166	-
(Increase) decrease in estimated third-party payor settlements, net	<u>(766,366)</u>	<u>111,604</u>
Net Cash Provided by Operating Activities	<u>\$ 2,062,876</u>	<u>\$ 2,027,075</u>
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:		
Capital assets replaced from insurance settlement	\$ -	\$ 63,633
Capital assets financed in accounts payable	-	67,600

The accompanying notes are an integral part of these financial statements.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying financial statements present the Lincoln County Health System (the "Health System"). The Health System is owned by Lincoln County, Tennessee ("the County" and "Primary Government") and is not a legal entity separate and apart from the County. The Health System is financially accountable and there is a financial benefit/burden relationship with the County. Accordingly, it is blended as an enterprise fund as part of the County's financial statements. The Health System is governed by the Health System Committee ("the Committee"), consisting of five members appointed from the County's Board of Commissioners and two physicians appointed from the medical staff. Each committee member serves a three-year rotational term.

Principles of Departmental Combination

The Health System's financial statements include the following financial activities also referred to herein as "departments": Lincoln Medical Center (the "Medical Center"), Lincoln Medical Center EMS (the "Ambulance Service"), Lincoln Medical Home Health and Hospice (the "Home Health Care and Hospice"), Patrick Rehab-Wellness Center (the "Wellness Center") and Lincoln and Donalson Care Centers (the "Care Centers"). Hospital-based departments include the Medical Center, Ambulance Service, Home Health and Hospice Care, and Wellness Center. All significant interdepartmental transactions have been eliminated.

The Medical Center provides general acute health care services for Lincoln County and surrounding areas. It is licensed for 49 acute care beds and 10 geropsych beds. The Ambulance Service provides emergency medical transportation services. The Home Health and Hospice Care provides skilled nursing, therapy, personal care and hospice services. The Patrick Rehab-Wellness Center provides centralized rehabilitation, health education, therapy and other related programs and services to other departments of the Health System and to local businesses, industries and residents. The Lincoln Care Center and Donalson Care Center provide long-term health care services. The Care Centers are licensed for 115 intermediate-level care beds and 125 skilled-level care beds. The Donalson Care Center is licensed for 24 beds for assisted living services.

The Medical Center's financial statements include the following cost centers, the Lincoln Medical Center Auxiliary Gift Shop (the "Auxiliary") and the Physician Practices. These cost centers are not separate legal entities and they are financially accountable to the Committee. The Physician Practices are comprised of employed physicians. A summary of these cost center's assets, liabilities, net position, results of operations, and changes in net position is presented below and on the following page as of June 30, 2015.

Condensed Statement of Net Position

	<u>Auxiliary</u>	<u>Physician Practices</u>
Assets		
Cash and cash equivalents	\$ 60,157	\$ 48,649
Accounts receivables, net of allowance	-	48,649
Supplies, at cost	7,649	-
	<u>67,806</u>	<u>97,298</u>
Liabilities		
	<u>-</u>	<u>-</u>
Net position		
Restricted	67,806	-
Unrestricted	-	97,298
	<u>\$ 67,806</u>	<u>\$ 97,298</u>

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Departmental Combination (Continued)

<u>Condensed Statement of Revenues, Expenses, and Changes in Net Position</u>	<u>Auxiliary</u>	<u>Physician Practices</u>
Net operating revenue	\$ 26,438	\$ 878,907
Operating expenses	<u>(15,341)</u>	<u>(1,794,906)</u>
Income (Loss) from operations	11,097	(915,999)
Nonoperating revenues and (expenses)	<u>(12,169)</u>	<u>39,307</u>
Excess(deficiency) revenue over expenses	(1,072)	(876,692)
Operating transfers from Medical Center	-	874,711
Total net position, at beginning of year	<u>68,878</u>	<u>99,279</u>
Total net position, at end of year	<u>\$ 67,806</u>	<u>\$ 97,298</u>

Basis of Accounting

The Health System uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

The accompanying financial statements of the Health System conform with accounting principles generally accepted in the United States as applied to governments and general practices of governmental health care entities. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting standards. The GASB's *Codification of Governmental Accounting and Financial Reporting Standards* document these principles.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Deposits

The Health System's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition, excluding restricted cash held for patient trust funds. State statutes authorize the Health System to invest in obligations of the U.S. Treasury, bank certificates of deposit, State approved repurchase agreements and pooled investment funds, consisting of State or local bonds, rated A or higher by a nationally recognized rating service. The carrying amount for deposits approximates fair value.

Special Funds

Special funds consist of restricted cash by contributors and special fund investments (primarily bank certificates of deposit and money market mutual funds) held for internally designated purposes by the Health System, and funds legally restricted for debt service requirements and held by a trustee under an indenture agreement. The carrying amount for special funds approximates fair value.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supplies

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

Capital Assets

Capital assets are stated at cost, less accumulated depreciation that is computed on the straight-line method over the estimated useful life of the asset. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the established useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest cost capitalized on borrowed funds for the years ended June 30, 2015 and 2014, respectively.

Contributed capital assets are reported at their estimated fair value at the time of their donation.

Major expenditures for property and those that substantially increase useful lives are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

Grants and Contributions

From time to time, the Health System receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. When both restricted and unrestricted resources are available for use, the Health System uses the restricted resources first, then the unrestricted resources as they are needed. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Compensated Absences

The Health System's employees earn paid time off ("PTO") benefits for vacation, sick, and holiday leave at varying rates that may accumulate up to a specified maximum depending on years of service. In the event of termination, an eligible employee is paid for accumulated PTO benefits. The estimated amount of PTO payable is accrued when earned and reported as a current liability in the accompanying financial statements.

Debt Issue Costs

Costs of issuance other than insurance are charged to expense in the period incurred. Premiums and discounts realized on debt issuances are deferred and amortized over the terms of the respective debt using a method which approximates the effective interest method.

Charity Care

The Health System 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 Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Income Taxes

The Health System, as an instrumentality of Lincoln County, Tennessee, is exempt from income taxes and form 990 filing.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management

The Health System is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. The Health System maintains commercial insurance coverage for claims arising from such matters. Settled claims in the past three years have not exceeded insurance coverage. There were no significant reductions in coverage compared to the prior year.

Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Health System has two items that qualify for reporting in this category. The first is the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is a deferred outflow related to pension which is described further in Note I.

In addition to liabilities, the statement of net position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Health System has one item that qualifies for reporting in this category. It is a deferred inflow related to pension which is described further in Note I.

Amortization expense for debt premium/discount costs and debt refunding deferred charges was \$26,657 for the years ended June 30, 2015 and 2014.

Net Position

Net position is the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets represent capital assets reduced by accumulated depreciation and by any outstanding debt related to the acquisition, construction or improvement of those assets as well as any deferred outflows or inflows of resources attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets occur when constraints are placed on the asset by creditors (such as debt covenants), grantors, contributions, laws, regulations (such as pensions), etc. Unrestricted net position is the amount of the 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 the restricted component of net position. The debt service reserve is presented as a restricted component of net position. The reserve amount is in compliance with the required amount.

Operating Revenues and Expenses

The Health System's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing patient health care services—the Health System's principal activity. Therefore, no additional segment financial information or disclosures are presented.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses (Continued)

Patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as adjustments become known or as years are no longer subject to audit, review or investigation. Laws governing the third-party programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Other operating revenues include charges for sale of medical and pharmaceutical supplies, medical transcripts, cafeteria sales, educational training services, etc. In addition, other operating revenues include payments received for implementation of electronic health records technology as a result of operating expenses incurred as further described in Note P.

Investment income, nonexchange revenues, grants, contributions and incentive payments received for purposes other than capital asset acquisition, are reported as nonoperating revenues.

Operating expenses are all expenses incurred to provide health care services, other than financing costs.

The Health System is eligible to receive payments from an endowment fund for the benefit of eligible patients. The endowment fund is legally separate from the Health System and under the control of an independent trustee. Therefore, it is not included in the Health System's financial statements. The Health System has not received any funds from this endowment fund for the years ended June 30, 2015 and 2014.

Reclassifications

Certain reclassifications have been made in the 2014 financial statements to conform to the 2015 financial statements presentation. Such reclassifications had no effect on the results of operations as previously reported.

NOTE B: DESIGNATED NET POSITION

Unrestricted net position includes special funds designated by the Health System totaling \$8,172,412 and \$8,138,307 as of June 30, 2015 and 2014, respectively, for specific purposes such as future capital improvements, insurance and debt service as described in Note E. Such internally designated special funds remain under the control of the Health System which may at its discretion later use the funds for other purposes.

NOTE C: CHARITY CARE

Charges foregone for services and supplies furnished under the Health System's charity care policy totaled \$1,216,287 and \$1,060,449 for the years ended June 30, 2015 and 2014, respectively.

NOTE D: NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payors follows:

Medicare – Medical Center inpatient care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medical Center outpatient services to Medicare beneficiaries are paid using a prospective payment system based on the patient's ambulatory patient classification group. Geropsych services, ambulance services, and rehab services related to Medicare beneficiaries are paid based upon a cost/fee screen reimbursement methodology.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE D: NET PATIENT SERVICE REVENUE (CONTINUED)

Care Center skilled nursing care services and Home Health and Hospice Care services to Medicare beneficiaries are paid based on prospective payment arrangements. Care Center Medicare payments are based on a blend of the Care Center's specific cost and a regional prospective payment rate. The rate varies according to a patient classification system that is based on patient clinical, diagnostic, and other factors.

Home Health payments for services to Medicare beneficiaries are based on the patient's resource group classification for patient clinical, functional, and service level factors.

Revenue from the Medicare program accounted for approximately 32 percent and 35 percent of the hospital-based departments' and Care Centers' net patient revenue, respectively, for the year ended June 30, 2015.

Each department is reimbursed at a tentative rate with final settlement determined after submission of an annual cost report by the department and audit thereof by the Medicare fiscal intermediary. The Health System's Medicare cost reports have been audited by the fiscal intermediary through June 30, 2011.

Medicaid - The Medicaid program for acute care services was replaced by a waiver program, TennCare, as approved by the Health Care Financing Administration ("HCFA"). Services to program beneficiaries are provided under contract with various managed care organizations through the State of Tennessee TennCare program. Payments for Medical Center inpatient services are paid based either upon a prospective per diem rate or per discharge rate. Payments for Hospital outpatient, Ambulance, Wellness Center, and Home Health and Hospice Care services are paid based upon a percentage of charges or per diem.

Care Center services rendered to Medicaid program beneficiaries are reimbursed at per diem rates determined by the State of Tennessee Comptroller's Office. The rates for both intermediate care (level I) and skilled care (level II) program beneficiaries are paid on a prospective per diem basis subject to a statewide ceiling for each rate.

Revenue from the Medicaid program accounted for approximately 5 percent and 50 percent of the hospital-based departments' and Care Centers' net patient revenue, respectively, for the year ended June 30, 2015.

Others - The Medical Center, Ambulance Service, and Wellness Center have entered into payment agreements with certain commercial insurance carriers and managed care health plans. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

NOTE E: DEPOSITS AND SPECIAL FUNDS

The Health System's carrying amount of deposits was \$6,954,348 and \$6,589,229 and the bank balance was \$7,103,292 and \$6,665,071 as of June 30, 2015 and 2014, respectively. The Health System's carrying amount for special funds, excluding amounts held under an indenture agreement, was \$8,268,140 and \$8,230,964 and the bank balance was \$8,259,524 and \$8,219,158 as of June 30, 2015 and 2014, respectively. The bank balances totaling \$15,362,816 are either insured by the Federal Deposit Insurance Corporation or Tennessee Bank Collateral Pool. The bank balances are not subject to custodial credit risk.

Interest Rate Risk

For an investment, this is the risk that a change in interest rates will affect the fair market value of investments held. The Health System has established a debt service reserve fund under an indenture agreement for repayment of the outstanding Series 2007 and 2013 bonds. The reserve fund consists of a money market fund that normally invests at least 80% of its assets in U. S. Treasury securities and repurchase agreements for those securities. Its value as of June 30, 2015 was \$1,083,884. Generally, these investments maintain a dollar weighted average maturity at 60 days or less.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE E: DEPOSITS AND SPECIAL FUNDS (CONTINUED)

Interest Rate Risk (Continued)

These investments are exposed to declines in fair values due to interest rate changes. The Health System's exposure is mitigated through the limited maturities of the investments.

The Health System has not adopted formal deposit or investment policies for exposure to various forms of risks associated with its deposit and investment practices, other than to follow State statutes.

Special funds are held as follows as of June 30:

	<u>2015</u>	<u>2014</u>
Internally designated for capital improvements, insurance and debt service:	\$ 8,172,412	\$ 8,138,307
Restricted by contributors	60,158	58,936
Held under an indenture agreement	1,083,884	1,083,772
Held under patient trust fund arrangements - cash	<u>35,570</u>	<u>33,721</u>
	9,352,024	9,314,736
Less amounts reclassified to meet current liabilities	<u>35,570</u>	<u>33,721</u>
	<u>\$ 9,316,454</u>	<u>\$ 9,281,015</u>

NOTE F: NOTES RECEIVABLE ARRANGEMENTS

The Medical Center has advanced money to physicians to assist in the establishment of their medical professional practices. Advances are to be repaid by cash payment or amortized by continuation of the physicians' medical practice for a certain period based upon the terms of each arrangement. Net advances to physicians totaled \$-0- for the years ended June 30, 2015 and 2014. Net repayments, primarily from amortization of advances to physicians, totaled \$118,475 and \$139,902 for the years ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, net advances totaling \$13,809 and \$132,284, respectively, were due under these arrangements.

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2015</u>
Capital assets, not being depreciated:				
Land	\$ 831,254	\$ -	\$ -	\$ 831,254
Property under capitalized lease	300,000	-	-	300,000
Construction in progress	<u>39,768</u>	<u>-</u>	<u>(39,768)</u>	<u>-</u>
Total capital assets, not being depreciated	1,171,022	-	(39,768)	1,131,254
Capital assets, being depreciated:				
Ground improvements	2,439,822	10,400	-	2,450,222
Building & improvements	27,557,116	51,629	(26,500)	27,582,245
Equipment	16,120,609	373,601	(161,390)	16,332,820
Equipment under capitalized lease	<u>355,753</u>	<u>-</u>	<u>-</u>	<u>355,753</u>
Total capital assets being depreciated	46,473,300	435,630	(187,890)	46,721,040
Less accumulated depreciation for:				
Ground improvements	(1,020,989)	(79,678)	-	(1,100,667)
Buildings and improvements	(15,835,677)	(907,237)	-	(16,742,914)
Equipment	(13,555,110)	(709,172)	169,496	(14,094,786)
Equipment under capitalized lease	<u>(264,094)</u>	<u>(59,200)</u>	<u>-</u>	<u>(323,294)</u>
Total accumulated depreciation and amortization	<u>(30,675,870)</u>	<u>(1,755,287)</u>	<u>169,496</u>	<u>(32,261,661)</u>
Capital assets, net	<u>\$ 16,968,452</u>	<u>\$ (1,319,657)</u>	<u>\$ (58,162)</u>	<u>\$ 15,590,633</u>

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE G: CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2014 was as follows:

	June 30, <u>2013</u>	<u>Additions</u>	<u>Retirements</u>	June 30, <u>2014</u>
Capital assets, not being depreciated:				
Land	\$ 773,754	\$ 57,500		\$ 831,254
Property under capitalized lease	300,000	-	-	300,000
Construction in progress	238,506	-	(198,738)	39,768
Total capital assets, not being depreciated	<u>1,312,260</u>	<u>57,500</u>	<u>(198,738)</u>	<u>1,171,022</u>
Capital assets, being depreciated:				
Ground improvements	2,308,042	135,992	(4,212)	2,439,822
Building & improvements	27,360,547	207,894	(11,325)	27,557,116
Equipment	15,865,212	458,898	(203,501)	16,120,609
Equipment under capitalized lease	355,753	-	-	355,753
Total capital assets being depreciated	<u>45,889,554</u>	<u>802,784</u>	<u>(219,038)</u>	<u>46,473,300</u>
Less accumulated depreciation for:				
Ground improvements	(945,961)	(79,240)	4,212	(1,020,989)
Buildings and improvements	(14,944,962)	(902,040)	11,325	(15,835,677)
Equipment	(12,744,055)	(1,014,556)	203,501	(13,555,110)
Equipment under capitalized lease	(204,894)	(59,200)	-	(264,094)
Total accumulated depreciation and amortization	<u>(28,839,872)</u>	<u>(2,055,036)</u>	<u>219,038</u>	<u>(30,675,870)</u>
Capital assets, net	<u>\$ 18,361,942</u>	<u>\$ (1,194,752)</u>	<u>\$ (198,738)</u>	<u>\$ 16,968,452</u>

The general depreciation rates based on the useful lives for depreciable capital assets is 5% for ground improvements, 2.5% to 5% for building and improvements, and 5% to 20% for equipment and equipment under capital lease. Depreciation and amortization of capital lease obligations expense for the years ended June 30, 2015 and 2014 totaled \$1,755,287 and \$2,055,036, respectively. Accumulated amortization for equipment under capital lease obligations was \$323,294 and \$264,094 at June 30, 2015 and 2014, respectively.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE H: LONG-TERM DEBT

The following is a schedule of long-term debt and capital lease obligations activity for the years ended June 30, 2015 and 2014:

	June 30, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	June 30, <u>2015</u>	Due Within <u>One Year</u>
Series 2007, Hospital Facility Lease Revenue and Tax Refunding Bonds, due in installments of \$10,000 to \$1,040,000 through May 2028, at an interest rate of 4.2%.	\$ 4,875,000	\$ -	\$ (10,000)	\$ 4,865,000	\$ 10,000
Series 2007, General Obligation Refunding Bonds, due in installments of \$170,000 to \$220,000 through May 2021, at an interest rate of 3.93%.	1,375,000	-	(170,000)	1,205,000	180,000
Capital Lease Obligation, due in monthly installments of \$3,561 through April 2017, at an interest rate of 7.5%.	108,772	-	(35,789)	72,983	38,567
Capital Lease Obligation, due in monthly installments of \$3,917 through August 2016, at an interest rate of 5.45%.	93,919	-	(41,522)	52,397	44,655
Series 2013, Hospital Facility Lease Revenue and Tax Refunding Bonds, due in installments of \$635,000 to \$730,000 through May 2023, at an interest rate of 2%.	<u>6,115,000</u>	<u>-</u>	<u>(630,000)</u>	<u>5,485,000</u>	<u>635,000</u>
Total long-term debt	<u>12,567,691</u>	<u>\$ -</u>	<u>\$ (887,311)</u>	<u>11,680,380</u>	<u>\$ 908,222</u>
Less current maturities of long-term debt	(887,310)			(908,222)	
Add unamortized bond premium	<u>164,314</u>			<u>145,916</u>	
Total noncurrent liabilities	<u>\$ 11,844,695</u>			<u>\$ 10,918,074</u>	

	June 30, <u>2013</u>	<u>Additions</u>	<u>Reductions</u>	June 30, <u>2014</u>	Due Within <u>One Year</u>
Series 2007, Hospital Facility Lease Revenue and Tax Refunding Bonds, due in installments of \$10,000 to \$1,040,000 through May 2028, at an interest rate of 4.2%.	\$ 4,885,000	\$ -	\$ (10,000)	\$ 4,875,000	\$ 10,000
Series 2007, General Obligation Refunding Bonds, due in installments of \$170,000 to \$220,000 through May 2021, at an interest rate of 3.93%.	1,545,000	-	(170,000)	1,375,000	170,000
Capital Lease Obligation, due in monthly installments of \$3,561 through April 2017, at an interest rate of 7.5%.	141,982	-	(33,210)	108,772	35,788
Capital Lease Obligation, due in monthly installments of \$3,917 through August 2016, at an interest rate of 5.45%.	132,528	-	(38,609)	93,919	41,522
Series 2013, Hospital Facility Lease Revenue and Tax Refunding Bonds, due in installments of \$635,000 to \$730,000 through May 2023, at an interest rate of 2%.	<u>6,735,000</u>	<u>-</u>	<u>(620,000)</u>	<u>6,115,000</u>	<u>630,000</u>
Total long-term debt	<u>13,439,510</u>	<u>\$ -</u>	<u>\$ (871,819)</u>	<u>12,567,691</u>	<u>\$ 887,310</u>
Less current maturities of long-term debt	(871,819)			(887,310)	
Add unamortized bond premium	<u>182,714</u>			<u>164,314</u>	
Total noncurrent liabilities	<u>\$ 12,750,405</u>			<u>\$ 11,844,695</u>	

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE H: LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all long-term debt outstanding as of June 30, 2015 are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 908,222	\$ 367,901
2017	892,158	342,479
2018	870,000	320,305
2019	890,000	298,922
2020	920,000	276,945
2021-2025	4,210,000	1,066,056
2026-2028	<u>2,990,000</u>	<u>254,730</u>
	<u>\$ 11,680,380</u>	<u>\$ 2,927,338</u>

Series 2007

The Health System defeased certain outstanding portions of its Series 1998 and Series 2001 bonds by issuance of \$4,960,000 Series 2007 Hospital Facility Lease Revenue and Tax Refunding Bonds and \$1,905,000 Series 2007 General Obligation Refunding Bonds and placing the proceeds of the bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Health System's financial statements.

Both Series 2007 bonds are the ultimate obligation of Lincoln County, Tennessee. Both Series 2007 bonds are subject to redemption prior to maturity, as a whole or in part, at any time, at the redemption price plus interest accrued to the redemption date for bonds maturing after May 1, 2017.

Series 2013

The Industrial Development Board of the City of Fayetteville and Lincoln County, Tennessee issued \$6,735,000 Series 2013 Hospital Facility Lease Revenue and Tax Refunding Bonds to advance refund \$6,795,000 of its Series 2004 bonds.

The net proceeds of \$6,918,992 (which includes a net premium of \$183,992) were used to purchase government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on its Series 2004 refunded bonds and Series 1998 bonds. As a result, the Series 2004 and Series 1998 bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The Series 2013 bonds are the ultimate obligation of Lincoln County, Tennessee. The Series 2013 bonds are subject to redemption prior to maturity, as a whole or in part, at any time, at the redemption price plus interest accrued to the redemption date for bonds maturing after May 1, 2023. The Series 2013 bonds are on a parity lien with the Series 2007 bonds.

For the year ended June 30, 2015, the Medical Center complied with its debt service coverage ratio of 1.15:1 for the outstanding Series 2007 and Series 2013 bonds.

Other Debt

The capital lease obligations are secured by the related property and equipment. The gross amount of assets recorded under capital leases and the accumulated amortization/depreciation is recorded in the statement of net position and described earlier in Note G. The future minimum lease payments and the net present value of these minimum lease payments are included in the annual requirements to amortize outstanding long-term debt.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE I: PENSION PLAN

Medical Center, Ambulance Service, Home Health and Hospice Care, and Wellness Center

Plan Description. Employees of the Health System’s hospital-based departments (i.e., Medical Center, Ambulance Service, Home Health and Hospice Care, and Wellness Center), referred to herein as Lincoln County Medical Center, are included in the Lincoln County Courthouse Employees’ Pension Plan. The employees of Lincoln County, the Lincoln County Medical Center and non-certified employees of the discretely presented Lincoln County School Department are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The proportionate share of the plan is based upon census data. The primary government employees comprise 23.33 percent, employees of the Lincoln County Medical Center comprise 37.74 percent, and the non-certified employees of the discretely present School Department comprise 38.93 percent of the plan. The TCRS was created by state statute under *Tennessee Code Annotated*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the 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 five 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 ten 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 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 three percent, 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	72
Inactive employees entitled to but not yet receiving benefits	190
Active employees	<u>225</u>
Total	<u><u>487</u></u>

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute five percent of salary. Lincoln County Medical Center makes employer contributions at the rate set by the Board of Trustees as

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE I: PENSION PLAN (CONTINUED)

Contributions. (Continued)

determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Lincoln County Medical Center were \$314,048 based on a rate of 3.22 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Lincoln County'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.

Net Pension Liability (Asset)

Lincoln County's net pension liability (asset) was measured as of June 30, 2014, and the total pension liability (asset) used to calculate net pension liability (asset) 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%
Salary increase	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 adjustment	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 rate 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 rate of return by the target asset allocation percentage and by adding inflation of three percent. The target allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the table on the following page.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE I: PENSION PLAN (CONTINUED)

Actuarial Assumptions. (Continued)

Asset Class	Percentage Long-term Expected Real Rate of Return	Percentage Target Allocations
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
		<u>100</u>

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

Discount Rate. The discount rate used to measure the total pension liability was 7.5 percent. 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 Lincoln County 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.

Allocation of Agent Plan Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance July 1, 2013	\$ 16,175,412	\$ 16,116,447	\$ 58,965
Changes for the year:			
Service cost	633,635	-	633,635
Interest	1,234,508	-	1,234,508
Difference between expected and actual experience	96,077	-	96,077
Contributions-employer	-	432,424	(432,424)
Contributions-employees	-	353,838	(353,838)
Net investment income	-	2,680,675	(2,680,675)
Benefit payments, including refunds of employee contributions	(697,884)	(697,884)	-
Administrative expenses	-	(8,788)	8,788
Other changes	-	-	-
	<u>1,266,336</u>	<u>2,760,265</u>	<u>(1,493,929)</u>
Balance June 30, 2014	\$ 17,441,748	\$ 18,876,712	\$ (1,434,964)

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE I: PENSION PLAN (CONTINUED)

Sensitivity of the Net Position Liability (Asset) to Changes in the Discount Rate. The table presented on the following page presents the net pension liability (asset) of Lincoln County Medical Center calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) 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 as described below:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Net pension liability	\$ 899,440	\$ (1,434,964)	\$ (3,353,482)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

Pension Expense. For the year ended June 30, 2015, Lincoln County Medical Center recognized pension expense of \$36,798.

Deferred Outflows of Resources and Deferred Inflows of Resources. For the year ended June 30, 2015, Lincoln County Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 76,862	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,175,166
Contributions subsequent to the measurement date of June 30, 2014 (1)	314,048	N/A
	\$ 390,910	\$ 1,175,166

(1) The amount shown above for "Contributions Subsequent to the Measurement Date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

Allocation of agent plan deferred outflows of resources and deferred inflows of resources

	Deferred Outflows of Resources	Deferred Outflows of Resources
Lincoln Medical Center (reflected in a proprietary fund)	\$ 390,910	\$ 1,175,166

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE I: PENSION PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources. (Continued)

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

Year ended	
June 30,	
2016	\$ (274,576)
2017	(274,576)
2018	(274,576)
2019	(274,576)
2020	-
Thereafter	-

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

Payable to the Pension Plan. At June 30, 2015 the Lincoln County Medical Center reported a payable of \$21,613 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

Care Centers

The Care Centers adopted a defined contribution pension plan, under Sections 401(a) and 457 of the Internal Revenue Code, covering all employees who are 21 years of age and have completed 1,000 hours of service. The plan is administrated by OneAmerica, One America Square, P.O. Box 368, Indianapolis, IN 46206 or can be accessed at www.oneamerica.com. Benefit terms, including contribution requirements, for the pension plan are established and may be amended by the Health System Committee. Participants are immediately invested in their own contributions and become fully vested in the employer's contributions after six years (20% after 2 years plus 20% for each subsequent year). Participants become eligible to retire at the age of 60 or completion of 5 years of service, whichever is later. The plan provides for early retirement at the age of 55 and the completion of 30 years of service. Eligible participants may contribute a portion of their salary, up to the legal limit established by the Internal Revenue Code. The Care Centers will match up to 50% of the employee's contribution up to the first 3% of gross pay. Employer and employee contributions under this plan totaled \$25,267 and \$24,880 and \$107,317 and \$107,442 for the years ended June 30, 2015 and 2014, respectively. The pension administrative expense is paid by the employees under the plan.

Deferred Compensation Plan

The Health System offers an optional deferred compensation plan to its employees created in accordance with Section 457 of the Internal Revenue Code. This plan is available to all employees on a voluntary basis and allows participants to defer a portion of their current income until future years to shelter such funds and earnings from federal taxation until withdrawal. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

The plan is administered through a third-party administrator, Massachusetts Mutual Life Insurance Company. The Health System does not perform the investing function and has no fiduciary accountability for the plan. Thus, plan assets and any related liabilities to plan participants have been excluded from the Health System's financial statements.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE J: RISK MANAGEMENT

The Health System contracts with Blue Cross of Tennessee to provide a self-insured group health insurance plan to eligible employees and their eligible dependents, as defined in the contract. The Health System has also purchased reinsurance for claims paid in any one-contract year, in excess of \$100,000 per member, which includes employees and their eligible dependents. Claims are paid on a monthly basis by Blue Cross with a settlement at the end of each quarter for the excess or deficit of premiums paid by the Health System over or under claims paid by Blue Cross.

Claims expense and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (claims lag).

As of June 30, 2015 and 2014, the Health System accrued \$7,829 and \$306,099 respectively, for an estimated claims lag. This total consist of prior quarter net amounts due/(refunds) from the insurance provider of (\$156,027) and \$130,801 and the accrued estimated lag due of \$163,856 and \$175,298 as of June 30, 2015 and 2014, respectively. Changes in the reported net liability for 2015 and 2014 resulted from the following:

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 306,099	\$ 141,481
Current year claims and settlements	1,860,696	2,289,325
Claim payments	<u>(2,158,966)</u>	<u>(2,124,707)</u>
Balance, end of year	<u>\$ 7,829</u>	<u>\$ 306,099</u>

The Health System has internally designated cash to use for payment of future insurance premiums. As of June 30, 2015, this internally designated cash, including interest earned, totaled \$158,868 as described in Note E.

NOTE K: CONCENTRATIONS OF CREDIT RISK

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements and managed care health plans. The following is a summary of the mix of accounts receivable from third-party payors and patients as of June 30:

	<u>2015</u>	<u>2014</u>
Medicare	32%	32%
Medicaid	20%	19%
Other third-party payors	23%	21%
Patients	<u>25%</u>	<u>28%</u>
	<u>100%</u>	<u>100%</u>

NOTE L: MANAGEMENT AGREEMENT

The Health System had a management agreement with Quorum Health Resources, LLC, ("QHR"), to provide management services and certain special personnel. The agreement was for a three year term that expired February 28, 2015. The Health System did not renew this agreement, but entered into an alliance agreement with Saint Thomas Health effective March 1, 2015 through August 31, 2015, to provide certain executive staffing services and access to group purchasing arrangements. Informally, this arrangement did extend through September 30, 2015. The QHR management fee paid in the current year was \$197,727. This fee is in addition to payments for special personnel, reimbursements for travel and dues of \$291,726. Total payments to QHR for 2015 and 2014 were \$489,453 and \$783,389, respectively. Executive staffing fees paid to Saint Thomas for 2015 totaled \$127,848.

Executive personnel are to be provided by the Health System after August 31, 2015.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE M: CONTINGENCIES AND COMMITMENTS

The Health System is involved in litigation arising in the ordinary course of business. The ultimate outcome of the litigation is unknown at the present time. Accordingly, no provision for any liability that might result has been made in the accompanying financial statements. After consultation with legal counsel, management estimates that those matters not covered by insurance will be resolved without material adverse effect on the Health System's financial position or results of operations.

Also, in the ordinary course of business the Health System has maintenance and service contract commitments under agreements with various vendors to maintain equipment and provide medical services for terms not to exceed generally a five year period.

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The Health System leases various equipment and property under operating leases that can be canceled under terms less than one year.

The following is a schedule by year of future minimum noncancelable lease payments as of June 30, 2015:

Year Ending <u>June 30,</u>	
2016	\$ 15,000
2017	<u>13,750</u>
	<u>\$ 28,750</u>

Rental expense under all operating leases for 2015 and 2014 totaled \$267,961 and \$206,502, respectively.

The Health System leases office space in its medical office building to physicians which expires in April 2016 and also leases office space at Lincoln Care Center which will expire in August 2015. The remaining future minimum rentals under the noncancelable leases expiring in fiscal year 2016 totals \$95,223.

Rental income received for 2015 and 2014 totaled \$245,903 and \$271,744 respectively. Rental income is included in other operating revenue in the accompanying financial statements. The cost and accumulated depreciation related to the medical office building is included in property and equipment (see Note G) as follows:

Cost	\$ 3,569,499
Accumulated depreciation	<u>(1,420,722)</u>
Net Book Value	<u>\$ 2,148,777</u>

NOTE N: LINCOLN COUNTY HEALTH SYSTEM FOUNDATION

The Lincoln County Health System Foundation ("Foundation") is a legally separate, tax-exempt supporting organization closely related to the Health System. The Health System does not control the timing or amount of receipts from the Foundation or have the ability to access the resources from the Foundation. Accordingly, the net assets of the Foundation are not reported by the Health System.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE N: LINCOLN COUNTY HEALTH SYSTEM FOUNDATION (CONTINUED)

For informational purposes only, a summary of the Foundation's assets, liabilities, net position, results of operations, and changes in net position follows as of June 30, 2015.

Assets, cash and cash equivalents	<u>\$ 33,649</u>
Liabilities	<u>-</u>
Unrestricted net position	<u>\$ 33,649</u>
Support and revenue	\$ 40,061
Expenses	<u>(40,960)</u>
Excess of expenses over support and revenue	(899)
Unrestricted net position, beginning of year	<u>34,548</u>
Unrestricted net position, end of year	<u>\$ 33,649</u>

NOTE O: PLEDGED REVENUES

The Health System has pledged revenues to secure certain revenue bonds as described in Note H. The current year revenues, debt service, and future pledge commitment are as follows:

	Current Year Principal and Interest Paid on <u>Revenue Bonds</u>	Percent of Current <u>Revenue</u>	Remaining Pledge based on future Principal and Interest <u>Requirements</u>	Commitment Period through <u>Fiscal Year</u>
<u>Operating Revenues</u>	<u>\$ 39,173,394</u>	<u>2.5%</u>	<u>\$ 13,098,190</u>	2028

NOTE P: ELECTRONIC HEALTH RECORD INCENTIVE PAYMENTS

The Health Information Technology for Economic and Clinical Health Act (HITECH Act) established programs under Medicare and Medicaid to provide incentive payments for the meaningful use of certified Electronic Health Record (EHR) technology. The Health System received \$807,133 and \$1,288,582 in Medicare and Medicaid EHR unrestricted incentive payments for the year ended June 30, 2015 and 2014, respectively, which is reported as other operating revenue. The 2015 year was the final funding year; however, incentive payments are subject to adjustment at time of settling of an annual cost report.

NOTE Q: NET SERVICE REVENUE

Accounts receivable is reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Health System management analyzes its past collection history utilizing a hindsight review methodology along with identification of collection trends and current status of the existing receivables for each of its major sources of revenue to estimate the allowance for doubtful accounts and provision of bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

The difference between the standard rates (or the discounted rates) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

**LINCOLN COUNTY HEALTH SYSTEM
NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2015 and 2014

NOTE Q: NET SERVICE REVENUE (CONTINUED)

The allowance for doubtful accounts ranged from 29.3% to 27.5% of accounts receivable as of June 30, 2015 and 2014, respectively. Total net write-offs decreased \$214,748 to \$4,306,738 for 2015 from \$4,521,486 for 2014.

The following schedule summarizes total revenues for the fiscal years ended June 30, 2015 and 2014:

	2015	2014
Patient service revenue (net of contractual allowances and discounts)	\$ 41,765,036	\$ 40,800,222
Provision for bad debt	<u>(4,891,210)</u>	<u>(4,147,133)</u>
Net patient revenue less provision for bad debt	36,873,826	36,653,089
Other operating revenue	<u>2,299,568</u>	<u>2,372,199</u>
Total operating revenue	<u>\$ 39,173,394</u>	<u>\$ 39,025,288</u>

NOTE R: GASB STATEMENT (GASB) NUMBER 68 AND 71 IMPLEMENTATION

The Health System implemented the provisions of GASB Statement 68, "Accounting and Financial Reporting for Pensions" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date" that are effective for employers with fiscal years ending June 30, 2015. These new Statements require the recording of a pension asset or liability, deferred outflows/ inflows of resources related to pensions. Accounting changes adopted to conform to the provisions of these Statements are to be applied retroactively by restating financial statements, if practical. The information to determine the amounts of all deferred inflows of resources and the deferred outflows of resources related to pensions, as applicable, at the beginning of the period is not available. In such circumstance, beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. Because the restatement of all prior period is not practical, the cumulative effect of applying these Statements is reported as a restatement of beginning net position as follows:

	Lincoln Medical Center	Lincoln Medical Center EMS	Home Health Care	Patrick Rehab- Wellness Center	Lincoln & Donalson Care Centers	<u>Total</u>
Net position June 30, 2014 as previously reported	\$ 1,070,876	\$ 287,380	\$ 179,171	\$ 1,056,631	\$ 21,124,795	\$ 23,718,853
GASB 68 and 71 implementation:						
Deferred outflow related to pension	349,783	32,672	19,219	30,750	-	432,424
Net pension liability	<u>(47,697)</u>	<u>(4,455)</u>	<u>(2,621)</u>	<u>(4,193)</u>	-	<u>(58,966)</u>
Net position June 30, 2014, restated	<u>\$ 1,372,962</u>	<u>\$ 315,597</u>	<u>\$ 195,769</u>	<u>\$ 1,083,188</u>	<u>\$ 21,124,795</u>	<u>\$ 24,092,311</u>

REQUIRED SUPPLEMENTARY INFORMATION

LINCOLN COUNTY MEDICAL CENTER
SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND RELATED
RATIOS BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
Last Fiscal Year ending June 30,

	2014
Total pension liability	
Service cost	\$ 633,635
Interest	1,234,508
Changes in benefit terms	-
Differences between actual & expected experience	96,077
Change of assumptions	-
Benefit payments, including refunds of employee contributions	<u>(697,884)</u>
Net change in total pension liability	1,266,336
Total pension liability - beginning	<u>16,175,412</u>
Total pension liability - ending (a)	<u><u>\$ 17,441,748</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 432,424
Contributions - employee	353,838
Net investment income	2,680,675
Benefit payments, including refunds of employee contributions	(697,884)
Administrative expense	<u>(8,788)</u>
Net change in plan fiduciary net position	2,760,265
Plan fiduciary net position - beginning	<u>16,116,447</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 18,876,712</u></u>
Net pension liability (asset) - ending (a) - (b)	<u><u>\$ (1,434,964)</u></u>
Plan fiduciary net position as a percentage of total pension liability	108.23%
Covered-employee payroll	\$ 9,830,241
Net pension liability (asset) as a percentage of covered-employee payroll	-14.60%

This is a 10-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 10 years of information is available.

LINCOLN COUNTY MEDICAL CENTER
SCHEDULE OF CONTRIBUTIONS
BASED ON PARTICIPATION IN THE PUBLIC EMPLOYEE PENSION PLAN OF TCRS
Last Fiscal Year ending June 30,

	2014	2015
Actuarially determined contribution	\$ 601,611	\$ 314,048
Contributions in relation to the actuarially determined contribution	601,611	314,048
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$ 9,830,241	\$ 9,753,040
Contributions as a percentage of covered-employee payroll	6.12%	3.22%

This is a 10-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 10 years of information is available.

Notes to Schedule

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	1 year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment Rate of Return	7.5 percent, 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 percent

OTHER FINANCIAL INFORMATION

**LINCOLN COUNTY HEALTH SYSTEM
DEPARTMENTAL SCHEDULE OF NET POSITION**

JUNE 30, 2015

	Lincoln Medical Center	Lincoln Medical Center EMS	Home Health & Hospice Care	Patrick Rehab- Wellness Center	Lincoln & Donalson Care Centers	Total
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 968,280	\$ 57,673	\$ 63,605	\$ 14,400	\$ 5,850,390	\$ 6,954,348
Restricted cash	-	-	-	-	35,570	35,570
Accounts receivable - net	2,728,686	365,679	147,914	-	1,208,289	4,450,568
Estimated third-party payor settlements receivable	1,082,806	-	-	-	57,297	1,140,103
Supplies, at cost	661,839	-	-	-	55,492	717,331
Prepaid expenses	92,158	-	-	35	19,582	111,775
Due from (to) departments	(4,267,902)	-	-	-	4,267,902	-
Other assets	55,329	-	-	-	200,671	256,000
Total Current Assets	<u>1,321,196</u>	<u>423,352</u>	<u>211,519</u>	<u>14,435</u>	<u>11,695,193</u>	<u>13,665,695</u>
NONCURRENT ASSETS:						
Special Funds	1,244,126	-	-	-	8,072,328	9,316,454
Capital assets, net of accumulated depreciation	10,617,810	295,531	79,412	1,188,487	3,409,393	15,590,633
Other assets:						
Investment in insurance fund	117,144	-	-	-	61,238	178,382
Notes receivable, net	13,809	-	-	-	-	13,809
Pension asset, net	1,137,958	120,522	67,878	108,606	-	1,434,964
Total Noncurrent Assets	<u>13,130,847</u>	<u>416,053</u>	<u>147,290</u>	<u>1,297,093</u>	<u>11,542,959</u>	<u>26,534,242</u>
TOTAL ASSETS	<u>14,452,043</u>	<u>839,405</u>	<u>358,809</u>	<u>1,311,528</u>	<u>23,238,152</u>	<u>40,199,937</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred charge on refundings	382,476	-	-	-	-	382,476
Deferred outflow related to pension	313,304	31,837	15,358	30,411	-	390,910
TOTAL DEFERRED OUTFLOWS	<u>695,780</u>	<u>31,837</u>	<u>15,358</u>	<u>30,411</u>	<u>-</u>	<u>773,386</u>
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES:						
Current maturities of long-term debt	869,655	-	-	38,567	-	908,222
Accounts payable	799,789	16,901	16,805	17,223	255,100	1,105,818
Accrued expenses:						
Salaries and payroll taxes	578,653	43,238	27,814	57,862	218,427	925,994
Compensated absences	545,235	41,395	31,908	37,996	351,234	1,007,768
Interest	60,231	-	-	-	-	60,231
Other	176,607	-	-	16	80,992	257,615
Patient trust funds	-	-	-	-	35,570	35,570
Total Current Liabilities	<u>3,030,170</u>	<u>101,534</u>	<u>76,527</u>	<u>151,664</u>	<u>941,323</u>	<u>4,301,218</u>
NONCURRENT LIABILITIES:						
Long-term debt, net of current maturities	10,883,658	-	-	34,416	-	10,918,074
TOTAL LIABILITIES	<u>13,913,828</u>	<u>101,534</u>	<u>76,527</u>	<u>186,080</u>	<u>941,323</u>	<u>15,219,292</u>
DEFERRED INFLOWS OF RESOURCES						
Deferred inflow related to pension	925,372	102,189	56,771	90,834	-	1,175,166
DEFERRED INFLOWS OF RESOURCES	<u>925,372</u>	<u>102,189</u>	<u>56,771</u>	<u>90,834</u>	<u>-</u>	<u>1,175,166</u>
NET POSITION:						
Net investment in capital assets	(753,027)	295,531	79,412	1,115,504	3,409,393	4,146,813
Restricted:						
Bond indenture debt service	1,083,884	-	-	-	-	1,083,884
Pension	525,890	50,170	26,465	48,183	-	650,708
Other purposes	67,806	-	-	-	-	67,806
Unrestricted (deficit)	(615,930)	321,818	134,992	(98,662)	18,887,436	18,629,654
TOTAL NET POSITION	<u>\$ 308,623</u>	<u>\$ 667,519</u>	<u>\$ 240,869</u>	<u>\$ 1,065,025</u>	<u>\$ 22,296,829</u>	<u>\$ 24,578,865</u>

**LINCOLN COUNTY HEALTH SYSTEM
DEPARTMENTAL SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

Year Ended June 30, 2015

	Lincoln Medical Center	Lincoln Medical Center EMS	Home Health & Hospice Care	Patrick Rehab- Wellness Center	Lincoln & Donalson Care Centers	Eliminations DR/(CR)	Total
OPERATING REVENUES:							
Net patient service revenue	\$ 20,019,831	\$ 1,750,093	\$ 1,124,155	\$ 1,679,346	\$ 12,629,760	\$ 329,359	\$ 36,873,826
Other operating revenue	2,383,517	-	19	465,343	546,015	1,095,326	2,299,568
Total Operating Revenues	<u>22,403,348</u>	<u>1,750,093</u>	<u>1,124,174</u>	<u>2,144,689</u>	<u>13,175,775</u>	<u>1,424,686</u>	<u>39,173,394</u>
OPERATING EXPENSES:							
Employee compensation and benefits	12,097,751	1,067,889	654,672	1,319,904	6,559,021	14,855	21,714,092
Fees to individuals and organizations	4,134,208	195,958	354,883	59,762	2,041,048	(933,642)	5,852,217
Supplies	3,350,865	48,989	34,768	45,464	1,353,960	(360,197)	4,473,849
Other expenses	2,437,795	140,201	102,339	179,414	1,824,034	(145,701)	4,538,082
Depreciation	1,295,272	74,969	7,946	93,849	283,251	-	1,755,287
Total Operating Expenses	<u>23,315,891</u>	<u>1,528,006</u>	<u>1,154,608</u>	<u>1,698,393</u>	<u>12,061,314</u>	<u>(1,424,686)</u>	<u>38,333,527</u>
INCOME (LOSS) FROM OPERATIONS	<u>(912,543)</u>	<u>222,087</u>	<u>(30,434)</u>	<u>446,296</u>	<u>1,114,461</u>	<u>-</u>	<u>839,867</u>
NONOPERATING REVENUES AND (EXPENSES):							
Investment income	6,144	-	114	32	58,092	-	64,382
Interest expense	(383,286)	-	-	(6,944)	-	-	(390,230)
Amortization	(26,657)	-	-	-	-	-	(26,657)
Noncapital grants and contributions	15,433	-	6,905	-	475	-	22,813
(Loss) on disposal of capital assets	(57,168)	-	-	-	(994)	-	(58,162)
Nonoperating Revenues and (Expenses), net	<u>(445,534)</u>	<u>-</u>	<u>7,019</u>	<u>(6,912)</u>	<u>57,573</u>	<u>-</u>	<u>(387,854)</u>
Excess (Deficiency) Revenues over Expenses	<u>(1,358,077)</u>	<u>222,087</u>	<u>(23,415)</u>	<u>439,384</u>	<u>1,172,034</u>	<u>-</u>	<u>452,013</u>
Capital Contributions	12,541	-	22,000	-	-	-	34,541
Operating transfers from (to) departments, net	281,197	129,835	46,515	(457,547)	-	-	-
CHANGE IN NET POSITION	<u>(1,064,339)</u>	<u>351,922</u>	<u>45,100</u>	<u>(18,163)</u>	<u>1,172,034</u>	<u>-</u>	<u>486,554</u>
Total Net Position, at beginning of year, as restated	<u>1,372,962</u>	<u>315,597</u>	<u>195,769</u>	<u>1,083,188</u>	<u>21,124,795</u>	<u>-</u>	<u>24,092,311</u>
TOTAL NET POSITION, AT END OF YEAR	<u>\$ 308,623</u>	<u>\$ 667,519</u>	<u>\$ 240,869</u>	<u>\$ 1,065,025</u>	<u>\$ 22,296,829</u>	<u>\$ -</u>	<u>\$ 24,578,865</u>

**LINCOLN COUNTY HEALTH SYSTEM
DEPARTMENTAL SCHEDULE OF CASH FLOWS**

Year Ended June 30, 2015

	Lincoln Medical Center	Lincoln Medical Center EMS	Home Health & Hospice Care	Patrick Rehab- Wellness Center	Lincoln & Donalson Care Centers	Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from patients and third party payors	\$ 20,155,204	\$ 1,474,679	\$ 1,109,092	\$ 1,679,346	\$ 12,437,678	\$ 36,855,999
Other operating cash receipts	2,383,517	-	19	465,343	546,015	3,394,894
Cash paid to employees for wages and benefits	(12,309,923)	(1,093,665)	(653,949)	(1,326,446)	(6,611,145)	(21,995,128)
Cash paid to suppliers for goods and services	(9,220,856)	(409,634)	(492,914)	(283,992)	(5,785,493)	(16,192,889)
Net Cash Provided (Used) by Operating Activities	<u>1,007,942</u>	<u>(28,620)</u>	<u>(37,752)</u>	<u>534,251</u>	<u>587,055</u>	<u>2,062,876</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Noncapital grants and contributions	15,433	-	6,905	-	475	22,813
Operating transfers in (out), net	281,197	129,835	46,515	(457,547)	-	-
Advances from (to) departments, net	387,003	-	-	-	(387,003)	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>683,633</u>	<u>129,835</u>	<u>53,420</u>	<u>(457,547)</u>	<u>(386,528)</u>	<u>22,813</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Additions to capital assets, net	(334,305)	(43,642)	(22,000)	(30,441)	(72,842)	(503,230)
Capital contributions	12,541	-	22,000	-	-	34,541
Principal payments on long-term debt	(851,522)	-	-	(35,789)	-	(887,311)
Interest paid on long-term debt, net	(386,569)	-	-	(6,944)	-	(393,513)
Net Cash Used by Capital and Related Financing Activities	<u>(1,559,855)</u>	<u>(43,642)</u>	<u>-</u>	<u>(73,174)</u>	<u>(72,842)</u>	<u>(1,749,513)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	6,144	-	114	32	62,697	68,987
Decrease in special funds	(1,356)	-	-	-	(38,688)	(40,044)
Net Cash Provided by Investing Activities	<u>4,788</u>	<u>-</u>	<u>114</u>	<u>32</u>	<u>24,009</u>	<u>28,943</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	136,508	57,573	15,782	3,562	151,694	365,119
CASH AND CASH EQUIVALENTS, beginning of year	831,772	100	47,823	10,838	5,698,696	6,589,229
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 968,280</u>	<u>\$ 57,673</u>	<u>\$ 63,605</u>	<u>\$ 14,400</u>	<u>\$ 5,850,390</u>	<u>\$ 6,954,348</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES:						
Income (loss) from operations	\$ (912,543)	\$ 222,087	\$ (30,434)	\$ 446,296	\$ 1,114,461	\$ 839,867
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -						
Depreciation	1,295,272	74,969	7,946	93,849	283,251	1,755,287
Provision for bad debts	4,146,907	419,210	26,382	92,104	206,607	4,891,210
Provision for note receivable arrangements	118,475	-	-	-	-	118,475
Investment in insurance funds, net	(13,295)	-	-	-	(12,092)	(25,387)
Changes in operating assets and liabilities -						
Accounts receivable	(3,282,834)	(694,624)	(41,445)	(92,104)	(361,023)	(4,472,030)
Supplies	(9,401)	-	-	-	4,629	(4,772)
Prepaid expenses	7,034	-	-	-	284	7,318
Other assets	112,856	-	-	-	(200,671)	(87,815)
Pension Asset	(1,137,958)	(120,522)	(67,878)	(108,606)	-	(1,434,964)
Deferred outflow related to pension	36,479	835	3,861	339	-	41,514
Accounts payable	442,407	(24,486)	(924)	641	(359,251)	58,387
Accrued expenses	55,568	(3,823)	10,590	15,091	(51,474)	25,952
Net pension liability	(47,697)	(4,455)	(2,621)	(4,193)	-	(58,966)
Deferred inflow related to pension	925,372	102,189	56,771	90,834	-	1,175,166
Estimated third-party payor settlements, net	(728,700)	-	-	-	(37,666)	(766,366)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,007,942</u>	<u>\$ (28,620)</u>	<u>\$ (37,752)</u>	<u>\$ 534,251</u>	<u>\$ 587,055</u>	<u>\$ 2,062,876</u>

LINCOLN COUNTY HEALTH SYSTEM
SCHEDULE OF LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS PRINCIPAL AND INTEREST REQUIREMENTS

June 30, 2015

Year Ending June 30,	Lincoln Medical Center Series 2007 Gen Oblig. Refg. Interest		Lincoln Medical Center Series 2007 Refg. Rev. Interest		Lincoln Medical Center Series 2013 Refg. Rev. Interest		Lincoln Medical Center Capital Lease Obligation		Lincoln Medical Center Capital Lease Obligation		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2016	\$ 180,000	\$ 47,356	\$ 10,000	\$ 204,330	\$ 635,000	\$ 109,700	\$ 38,567	\$ 4,166	\$ 44,655	\$ 2,349	\$ 1,276,123
2017	190,000	40,282	10,000	203,910	650,000	97,000	34,416	1,195	7,742	92	1,234,637
2018	195,000	32,815	10,000	203,490	665,000	84,000	-	-	-	-	1,190,305
2019	205,000	25,152	10,000	203,070	675,000	70,700	-	-	-	-	1,188,922
2020	215,000	17,095	10,000	202,650	695,000	57,200	-	-	-	-	1,196,945
2021	220,000	8,646	10,000	202,230	710,000	43,300	-	-	-	-	1,194,176
2022	-	-	10,000	201,810	725,000	29,100	-	-	-	-	965,910
2023	-	-	10,000	201,390	730,000	14,600	-	-	-	-	955,990
2024	-	-	880,000	200,970	-	-	-	-	-	-	1,080,970
2025	-	-	915,000	164,010	-	-	-	-	-	-	1,079,010
2026	-	-	955,000	125,580	-	-	-	-	-	-	1,080,580
2027	-	-	995,000	85,470	-	-	-	-	-	-	1,080,470
2028	-	-	1,040,000	43,680	-	-	-	-	-	-	1,083,680
	<u>\$ 1,205,000</u>	<u>\$ 171,346</u>	<u>\$ 4,865,000</u>	<u>\$ 2,242,590</u>	<u>\$ 5,485,000</u>	<u>\$ 505,600</u>	<u>\$ 72,983</u>	<u>\$ 5,361</u>	<u>\$ 52,397</u>	<u>\$ 2,441</u>	<u>\$ 14,607,718</u>

**LINCOLN COUNTY HEALTH SYSTEM
ADMINISTRATION**

June 30, 2015

The affairs of the Lincoln County Health System are governed by the Health System Committee. The following individuals constitute the Committee at June 30, 2015:

Anthony Taylor	Fayetteville, Tennessee	Chairman
Ben Brown	Petersburg, Tennessee	Vice Chairman
Donny Ogle	Elora, Tennessee	Secretary/Treasurer
Sharon Eubanks	Fayetteville, Tennessee	Trustee
John Thorpe	Fayetteville, Tennessee	Trustee
Doug Layman, M.D.	Fayetteville, Tennessee	Medical Staff Representative
Linda Jackson, M.D.	Fayetteville, Tennessee	Medical Staff Representative

The management officials are as follows:

*Elizabeth Lemons	Interim Chief Executive Officer
*Bailey Pratt	Interim Chief Financial Officer
Vicky Groce	Chief Nursing Officer
Bruce Long	Controller
Carolyn Atchley & Mark Davis	Care Centers- Administrators
Gloria Medows	Patrick Rehab Wellness-Administrator
Richard Wright	EMS- Director
Susie Compton	HHH-Administrator

* Special personnel with Saint Thomas Health.

PUTMAN & HANCOCK
Certified Public Accountants

219 East College Street
P.O. Box 722
Fayetteville, Tennessee 37334

(931) 433-1040
Fax (931) 433-9290

**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**

To the Health System Committee
Lincoln County Health System
Lincoln County, 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 financial statements of the Lincoln County Health System (the "Health System") 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 October 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health System'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 Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System'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 Health System'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance 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 entity'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 Health System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Putman & Hancock

Fayetteville, Tennessee
October 28, 2015

**LINCOLN COUNTY HEALTH SYSTEM
SCHEDULE OF PRIOR YEAR FINDINGS
For the Fiscal Year Ended June 30, 2015**

Financial Statement Findings

There were no prior year findings reported.