

Annual Financial Report

Blount Memorial  
Hospital, Inc.

*Years ended June 30, 2014 and 2013  
with Report of Independent Auditors*

Blount Memorial Hospital, Inc.  
Annual Financial Report  
Years ended June 30, 2014 and 2013

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## Report of Independent Auditors

To the Board of Directors  
Blount Memorial Hospital, Inc.

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

We have audited the accompanying financial statements of Blount Memorial Hospital, Inc. (the "Hospital"), a component unit of the County of Blount, Tennessee, as of and for the year ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

To the Board of Directors  
Blount Memorial Hospital, Inc.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Blount Memorial Hospital, Inc. as of June 30, 2014 and 2013, and the changes in its net position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions, laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Coulter & Justus, P.C.*

September 11, 2014  
Knoxville, Tennessee

# Blount Memorial Hospital, Inc.

## Management's Discussion and Analysis

This section of Blount Memorial Hospital, Inc.'s annual financial report presents management's discussion and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2014 and 2013. The information contained herein should be considered in conjunction with the Hospital's accompanying financial statements. Unless otherwise indicated, amounts are in thousands.

### Overview of the Financial Statements

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

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

Amounts presented reflect restatements in connection with the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as fully described in the accompanying notes (Note 8).

### Financial Highlights

Condensed financial information as of and for the years ended June 30, 2014, 2013 and 2012 is provided in the tables below.

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Assets:			
Current assets	<b>\$ 36,458</b>	\$ 37,904	\$ 28,186
Assets limited as to use	<b>109,909</b>	108,244	156,989
Property and equipment, net	<b>124,704</b>	126,387	100,858
Other	<b>8,273</b>	9,139	5,105
Total assets	<b><u>\$279,344</u></b>	<u>\$281,674</u>	<u>\$291,138</u>
Deferred outflows of resources--accumulated decrease in fair value of interest rate swaps	<b><u>\$ 10,405</u></b>	<u>\$ 9,994</u>	<u>\$ 15,845</u>

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

**Financial Highlights (continued)**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Liabilities:			
Current liabilities	\$ 22,847	\$ 23,862	\$ 21,581
Bonds payable	86,041	92,510	96,625
Interest rate swap liabilities	10,405	9,994	15,845
Total liabilities	<b>\$119,293</b>	<b>\$126,366</b>	<b>\$134,051</b>
Net position:			
Net investment in capital assets	\$ 34,491	\$ 32,465	\$ 5,796
Restricted, nonexpendable	1,060	936	860
Unrestricted	134,905	131,901	166,276
Total net position	<b>\$170,456</b>	<b>\$165,302</b>	<b>\$172,932</b>
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Changes in net position			
Operating revenues	\$221,270	\$206,859	\$182,670
Operating expenses	225,455	214,323	187,810
Operating loss	(4,185)	(7,464)	(5,140)
Nonoperating income (loss)	9,339	(166)	3,024
Excess of revenues over expenses (expenses over revenues)	<b>\$ 5,154</b>	<b>\$ (7,630)</b>	<b>\$ (2,116)</b>

*Current Assets*

Current assets decreased from 2013 to 2014 from \$37,904 to \$36,458. The cash position increased from \$3,904 to \$7,433 during the fiscal year along with a decrease in accounts receivable from \$26,715 to \$23,278. The improvements in cash position and accounts receivable were due to further implementation of the electronic health record and efficiencies gained in billing and collections. Funds held by trustee decreased from \$1,107 to \$0 during the fiscal year after the issuance of the 2014 bonds. Note 8 in the financial statements provides more information regarding long-term debt.

*Assets Limited as To Use*

Assets limited as to use increased from \$108,244 to \$109,909 during the fiscal year. Favorable investment returns drove the changes.

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

**Financial Highlights (continued)**

*Net Position*

Overall, the Hospital's net position increased from \$165,302 to \$170,456 during the fiscal year. In note 10 of the financial statements, the blended component units that make up Blount Memorial Hospital, Inc. are displayed in more detail. Property and equipment additions as well as debt repayments increased the amounts classified as net investment in capital assets.

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

*Results of Operations*

Operating revenues and expenses are as follows for the years ended June 30, 2014, 2013 and 2012.

	<b>2014</b>	<b>Relative %</b>	<b>2013</b>	<b>Relative %</b>	<b>2012</b>	<b>Relative %</b>
Net patient service revenue	<b>\$182,815</b>	<b>83%</b>	\$175,214	85%	\$167,086	91%
Other revenue	<b>38,455</b>	<b>17%</b>	31,645	15%	15,584	9%
Total operating revenues	<b>\$221,270</b>	<b>100%</b>	\$206,859	100%	\$182,670	100%
Salaries and wages	<b>\$105,021</b>	<b>47%</b>	\$ 99,360	46%	\$ 84,661	45%
Employee benefits	<b>25,419</b>	<b>11%</b>	27,364	13%	23,673	13%
Contract salaries	<b>3,027</b>	<b>1%</b>	2,558	1%	1,207	1%
Professional fees	<b>4,033</b>	<b>2%</b>	4,352	2%	3,645	2%
Patient supplies	<b>34,169</b>	<b>15%</b>	32,046	15%	28,925	15%
Purchased maintenance	<b>9,514</b>	<b>4%</b>	7,862	4%	7,729	4%
Outside services	<b>6,598</b>	<b>3%</b>	6,607	3%	5,945	3%
Equipment rental	<b>2,982</b>	<b>1%</b>	2,809	2%	2,879	2%
Utilities	<b>4,982</b>	<b>2%</b>	4,476	2%	4,463	2%
Marketing	<b>964</b>	<b>1%</b>	833	0%	640	0%
Depreciation and amortization	<b>16,152</b>	<b>7%</b>	13,179	6%	11,018	6%
Interest	<b>2,727</b>	<b>1%</b>	3,705	2%	3,762	2%
Other expenses	<b>9,867</b>	<b>5%</b>	9,172	4%	9,263	5%
Total operating expenses	<b>\$225,455</b>	<b>100%</b>	\$214,323	100%	\$187,810	100%

## Blount Memorial Hospital, Inc.

### Management's Discussion and Analysis (continued)

#### **Financial Highlights (continued)**

Changes in patient volumes have resulted in an increase in net patient service revenue of 4.3% from 2013 to 2014. Hospital fees and rates have increased each year but a significant portion of the price increases are not reimbursed by the Hospital's largest third party payors such as Medicare and TennCare.

Total operating revenues and expenses have increased 7.0% and 5.2%, respectively, from 2013 to 2014.

Interest costs in 2014 declined after refunding bonds during the fiscal year.

#### *Other Changes in Net Position*

The Hospital experienced investment income of \$7,913 in 2014 and net investment loss of \$663 in 2013. The changes in fair value of investments in both years were due to the changes in the market.

#### **Capital Acquisitions and Construction Activities**

Note 6 to the financial statements summarizes property and equipment by class and changes for the years ended June 30, 2014 and 2013. Additional information regarding accounting policies for capital assets is provided in Note 1 to the financial statements.

Total property and equipment decreased from \$126,387 to \$124,704 during the fiscal year. Construction in progress at June 30, 2014 consists of facility upgrades and a new magnetic resonance imaging center at East Tennessee Medical Group. The hospital recorded Health Information Technology for Economic and Clinical Health Act ("HITECH") related incentive payments of \$932 and \$2,361 during fiscal year 2014 and 2013. Note 3 discusses the Hospital's meaningful use initiatives in more detail.

#### **Long-Term Debt Activity**

During the fiscal year the E-5-A and 1998B bonds were refunded. Blount County issued on behalf of the hospital \$89,125 in General Obligation Refunding Bonds, Series 2013A in December and \$4,288 of Hospital Revenue Refunding Bonds, Series 2014 in January. The terms of the bond issues are included in Note 8 to the financial statements.

The Series 2013A bonds bear interest at a variable rate. Bonds totaling \$25,000 are subject to an interest rate swap agreement which fixes the rate at 4.9%. An additional portion of the bonds totaling \$30,700 are subject to an interest rate swap agreement which fixes the rate at 4.33%. The balance outstanding at June 30, 2014 and 2013 was \$85,925 and \$89,125, respectively. Principal payments totaled \$3,200 on the series 2013A/E-5-A bonds during 2014 and \$1,580 in 2013.

The outstanding 2014 bonds bear interest at a fixed rate of 1.68%. The balance outstanding at June 30, 2014 and 2013 was \$4,288 and \$7,500, respectively. Principal payments on the 2014/1998B bond issues were \$3,212 and \$2,385 for 2014 and 2013, respectively.

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

**Financial Highlights (continued)**

**Requests for Information**

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

Respectfully submitted,



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

Blount Memorial Hospital, Inc.

Statements of Net Position

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 7,433,277	\$ 3,904,456
Patient accounts receivable, less allowances for uncollectible accounts of \$11,114,745 in 2014 and \$8,452,602 in 2013	23,277,777	26,715,271
Inventories	3,169,305	3,676,546
Prepaid expenses	2,577,949	2,500,453
Funds held by trustee restricted to payment of current liabilities	-	1,107,282
Total current assets	<b>36,458,308</b>	37,904,008
Assets limited as to use:		
By Board	108,253,349	105,041,763
Foundation	1,564,220	1,381,029
Other investments--held by trustee	91,006	225,943
Under bond agreements--held by trustee	-	2,702,509
Less funds held by trustee restricted to payment of current liabilities	-	(1,107,282)
	<b>109,908,575</b>	108,243,962
Property and equipment, net	124,704,493	126,387,075
Other assets	8,272,789	9,138,810
Total assets	<b>279,344,165</b>	281,673,855
<b>Deferred outflows of resources</b>		
Accumulated decrease in fair value of interest rate	10,405,050	9,994,413
Total assets and deferred outflows of resources	<b>\$ 289,749,215</b>	<b>\$ 291,668,268</b>

Blount Memorial Hospital, Inc.  
Statements of Net Position (continued)

	June 30	
	2014	2013
<b>Liabilities and net position</b>		
Current liabilities:		
Accounts payable	\$ 3,286,598	\$ 4,893,887
Accrued compensation, benefits and withholdings	11,271,165	10,630,842
Other accrued expenses	3,119,477	2,987,210
Estimated third party payor settlements	831,175	850,003
Accrued interest payable	166,416	385,080
Current portion of bonds payable	4,172,438	4,115,000
Total current liabilities	22,847,269	23,862,022
Bonds payable	86,040,962	92,510,000
Interest rate swap liabilities	10,405,050	9,994,413
Total liabilities	119,293,281	126,366,435
Net position:		
Net investment in capital assets	34,491,093	32,464,584
Restricted, nonexpendable	1,060,420	935,838
Unrestricted	134,904,421	131,901,411
Total net position	170,455,934	165,301,833
Total liabilities and net position	\$ 289,749,215	\$ 291,668,268

*See accompanying Notes to Financial Statements.*

Blount Memorial Hospital, Inc.

Statements of Revenues, Expenses and Changes in Net Position

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Operating revenues:		
Net patient service revenue	\$ 182,814,716	\$ 175,213,390
Other revenue	<b>38,455,362</b>	31,645,236
Total operating revenues	<b>221,270,078</b>	206,858,626
Operating expenses:		
Salaries and wages	<b>105,021,263</b>	99,359,496
Employee benefits	<b>25,419,312</b>	27,364,192
Contract salaries	<b>3,027,272</b>	2,558,218
Professional fees	<b>4,032,782</b>	4,352,246
Patient supplies	<b>34,169,470</b>	32,045,776
Purchased maintenance	<b>9,513,703</b>	7,861,802
Outside services	<b>6,597,796</b>	6,606,794
Equipment rental	<b>2,981,710</b>	2,808,918
Utilities	<b>4,981,776</b>	4,475,810
Marketing	<b>964,009</b>	832,967
Depreciation and amortization	<b>16,152,257</b>	13,178,744
Interest	<b>2,726,506</b>	3,705,090
Other expenses	<b>9,867,430</b>	9,172,253
Total operating expenses	<b>225,455,286</b>	214,322,306
Operating loss	<b>(4,185,208)</b>	(7,463,680)
Nonoperating income (loss):		
Investment income (loss)	<b>7,912,527</b>	(662,568)
Contributions and other	<b>1,426,782</b>	496,396
Total nonoperating income (loss)	<b>9,339,309</b>	(166,172)
Excess of revenues over expenses (expenses over revenues)	<b>5,154,101</b>	(7,629,852)
Net position at beginning of year	<b>165,301,833</b>	172,931,685
Net position at end of year	<b>\$ 170,455,934</b>	<b>\$ 165,301,833</b>

*See accompanying Notes to Financial Statements.*

Blount Memorial Hospital, Inc.

Statements of Cash Flows

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Receipts from and on behalf of patients	\$ 224,688,744	\$ 195,685,920
Payments to employees for services	(104,380,940)	(98,164,277)
Payments to suppliers and contractors	(101,406,539)	(97,975,621)
Net cash provided by (used in) operating activities	<u>18,901,265</u>	(453,978)
<b>Cash flows from noncapital financing activities</b>		
Contributions and other	1,426,782	496,396
<b>Cash flows from capital and related financing activities</b>		
Additions to property and equipment	(14,797,652)	(17,871,654)
Acquisition of medical group assets	-	(24,631,891)
Repayments of long-term debt	(99,825,000)	(3,965,000)
Proceeds from bond issuance	93,413,400	-
Interest paid on long-term debt	(2,945,170)	(3,758,881)
Net cash used in capital and related financing activities	<u>(24,154,422)</u>	(50,227,426)
<b>Cash flows from investing activities</b>		
Interest and dividends	2,505,335	7,535,487
Net proceeds from sale of investment securities designated as assets limited as to use	1,668,787	39,748,277
Net cash provided by investing activities	<u>4,174,122</u>	47,283,764
Net increase (decrease) in cash and cash equivalents	347,747	(2,901,244)
Cash and cash equivalents at beginning of year	7,581,054	10,482,298
Cash and cash equivalents at end of year	<u>\$ 7,928,801</u>	<u>\$ 7,581,054</u>
<b>Reconciliation of cash and cash equivalents to the statements of net position</b>		
Cash and cash equivalents in current assets	\$ 7,433,277	\$ 3,904,456
Cash and cash equivalents included in assets limited as to use	495,524	3,676,598
Total cash and cash equivalents	<u>\$ 7,928,801</u>	<u>\$ 7,581,054</u>

Blount Memorial Hospital, Inc.

Statements of Cash Flows (continued)

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities</b>		
Operating loss	\$ (4,185,208)	\$ (7,463,680)
Adjustments to reconcile to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	16,152,257	13,178,744
Loss on disposal of property and equipment	20,840	-
Interest payments	2,945,170	3,758,881
Changes in operating assets and liabilities:		
Net patient accounts receivable	3,437,494	(10,976,060)
Inventories and prepaid expenses	429,745	(130,132)
Change in other assets	(31,797)	59,289
Accounts payable, other accrued expenses and accrued interest	(488,731)	120,407
Accrued compensation, benefits and withholdings	640,323	1,195,219
Estimated third party payor settlements	(18,828)	(196,646)
Net cash provided by (used in) operating activities	<u>\$ 18,901,265</u>	<u>\$ (453,978)</u>

**Noncash investing, capital and financing activities**

At June 30, 2013, accounts payable and accrued expenses included \$1,204,955 for property and other capital additions.

Investment income includes increases of \$5,407,192 in 2014 and decreases of \$8,198,055 in 2013 to reflect the net change in fair value of investments during each year.

*See accompanying Notes to Financial Statements.*

# Blount Memorial Hospital, Inc.

## Notes to Financial Statements

June 30, 2014

### 1. Description of Reporting Entity and Significant Accounting Policies

#### Reporting Entity

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

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

The Hospital is the sole corporate member of the Blount Memorial Foundation (the “Foundation”), which coordinates and secures resources to enable the Hospital to maintain, improve and advance medical care. The Hospital and the Foundation have common boards of directors and the financial activity of the Foundation is included (blended) in the Hospital’s financial statements (*Note 10*). Separate financial statements of the Foundation are maintained by Foundation and Hospital management. Except for certain expenses paid directly by the Foundation, the Hospital provides administrative services and pays for operating expenses to support the Foundation’s activities.

Blount Memorial Physician Group, Inc. (“BMPG”) is owned 100% by the Hospital and governed by the Hospital’s board of directors. The financial activity of BMPG is also included (blended) in the Hospital’s financial statements (*Note 10*). Effective October 1, 2012, the Hospital acquired the assets of East Tennessee Medical Group (“ETMG”) and employed the physicians who now operate as part of BMPG. BMPG provides physician and outpatient services in Blount County and includes over 50 physicians in primary care and more than ten specialties. Separate financial statements are maintained by the Hospital.

The Hospital has non-controlling ownership interests in partnerships which operate medical facilities in Blount County consistent with the Hospital’s mission of providing healthcare services. Ownership investments are included in other assets at June 30, 2014 and 2013 (*Note 7*).

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

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

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

**Basis of Presentation**

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

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

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

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

**Cash and Cash Equivalents**

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

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

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

**Patient Accounts Receivable**

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

**Inventories**

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

**Investments**

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

The Hospital is organized as a private act hospital authority, which provides the Hospital additional rights and powers including the manner in which funds are invested. The Hospital diversifies its investments into a broad range of asset classes in order to reduce concentration risk and to maximize return with reasonable and prudent levels of risk. It is also the Hospital's policy to limit the maximum position for each type of investment at varying levels within these classifications. As of June 30, 2014, the Hospital's fixed income investments all have quality ratings of A or better (by both Standard & Poor's and Moody's).

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

**Assets Limited as to Use by Board and Foundation**

Certain investments have been designated by the Board of Directors for the replacement of property and equipment or for other purposes. Cash and investments held by the Foundation in trust accounts are also classified as assets limited as to use (*Note 10*).

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

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

**Property and Equipment**

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

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

**Accrual for Compensated Absences**

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

**Operating Revenues and Expenses**

Revenue and expenses associated with the Hospital's mission of providing healthcare services are considered to be operating activities. Non-operating revenues consist primarily of investment income (loss) and general contributions to the Hospital.

**Income Taxes**

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

**Charity Care**

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

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

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

**Patient Service Revenue**

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

**Risk Management**

The Hospital is self-insured for medical malpractice and employee (including dependent) group health expenses and claims (*Note 5*). Commercial insurance is purchased for significant exposure to various other risks typical to the Hospital's operating environment and industry such as loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. There were no significant losses in excess of insurance coverage during the last three years.

**Use of Estimates**

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

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

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

BMPG's cash balances at financial institutions are covered by Federal Deposit Insurance Corporation ("FDIC") insurance (risk category insured), subject to certain limits.

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

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

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

	<b>2014</b>	<b>%</b>	<b>2013</b>	<b>%</b>
U.S. Treasury Portfolio (cash equivalents)	\$ 150,399	0%	\$ 3,396,776	3%
U.S. Government Agency Securities	8,997,194	8%	9,309,240	9%
Municipal bonds	6,015,475	6%	4,894,340	4%
Corporate bonds	10,616,375	10%	15,239,725	14%
Bond mutual funds	42,726,561	39%	46,421,930	43%
Equity mutual funds	39,838,351	37%	28,708,204	27%
	<b>\$108,344,355</b>	<b>100%</b>	<b>\$107,970,215</b>	<b>100%</b>

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

	<b>2014</b>	<b>2013</b>
Interest and dividends	\$2,505,335	\$7,535,487
Net realized and unrealized investment gain (loss)	5,407,192	(8,198,055)
	<b>\$7,912,527</b>	<b>\$ (662,568)</b>

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

	<b>2014</b>	<b>2013</b>
Cash	\$ 75,155	\$ 45,767
U.S. Treasury Portfolio (cash equivalents)	269,970	234,055
Bond mutual funds	470,605	461,314
Equity mutual funds	748,490	639,893
	<b>\$1,564,220</b>	<b>\$1,381,029</b>

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

**3. Net Patient Service Revenue**

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

	<b>2014</b>	<b>2013</b>
Gross patient service charges	<b>\$ 747,615,994</b>	\$ 701,918,021
Contractual adjustments and discounts	<b>(514,382,294)</b>	(474,980,352)
Charity care charges foregone	<b>(37,564,748)</b>	(40,977,634)
Provision for bad debts	<b>(12,854,236)</b>	(10,746,645)
Net patient service revenue	<b>\$ 182,814,716</b>	\$ 175,213,390

HITECH was enacted as part of the American Recovery and Reinvestment Act of 2009. Under HITECH, the Hospital must implement a certified electronic health record in an effort to promote the adoption and meaningful use of health information technology. It is the Hospital's policy to recognize such revenue when there is reasonable assurance the condition specified for compliance within the applicable statutes will be met and the grant will be received. Accordingly, during 2014 and 2013 the Hospital recorded approximately \$932,000 and \$2,361,000, respectively, of incentive payments under Medicare and TennCare programs related to meeting meaningful use objectives mandated by HITECH. These incentive payments are included as a component of net patient service revenue.

**4. Third Party Payor Agreements**

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

## Blount Memorial Hospital, Inc.

### Notes to Financial Statements (continued)

#### **4. Third Party Payor Agreements (continued)**

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

Contractual adjustments for Medicare, TennCare and other third party discount arrangements are recognized when the related revenues are reported in the financial statements. The percentage of gross patient charges from the Medicare and TennCare programs was approximately 31% and 10%, respectively, in 2014 and 33% and 10%, respectively, in 2013.

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

#### **5. Malpractice Trust Fund and Employee Group Health Claims**

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

The Hospital provides professional liability coverage through a self-insurance malpractice trust fund. Under the trust agreement, the trust assets can only be used for payment of malpractice losses, related expenses, and the cost of administering the trust. The assets of, and contributions to, the trust are reported in the Statements of Net Position; income from the trust assets, claims and administrative costs are reported in the Statements of Revenues, Expenses and Changes in Net Position.

Claims and expenses of \$137,447 and \$256,121 were paid from the fund during 2014 and 2013, respectively. At June 30, 2014, the Hospital is involved in medical malpractice litigation in which management of the Hospital, after consultation with legal counsel, is of the opinion that liability, if any, related to these claims would not be material to the financial statements. No amounts are accrued for potential losses related to unreported incidents or reported incidents which have not yet resulted in asserted claims as the Hospital is not able to estimate such amounts.

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

**5. Malpractice Trust Fund and Employee Group Health Claims (continued)**

The Hospital is self-insured for employee (and dependent) group health claims and records a liability for claims known but unpaid and estimated claims incurred but not reported. The liability for employee group health claims was \$1,323,181 and \$1,198,490 at June 30, 2014 and 2013, respectively. The total expense related to employee group health claims (net of employee paid premiums) was approximately \$12,482,000 and \$13,836,000 for 2014 and 2013, respectively.

**6. Property and Equipment**

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

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

Construction in progress at June 30, 2014 includes costs related to the renovation and upgrades to the building and magnetic resonance imaging center at ETMG, with total estimated costs to complete of approximately \$2,920,000.

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

**6. Property and Equipment (continued)**

	<b>Balance July 01, 2012</b>	<b>Additions</b>	<b>Retirements and Transfers</b>	<b>Balance June 30, 2013</b>
Cost:				
Land	\$ 9,594,425	\$ 1,455,758	\$ —	\$ 11,050,183
Land improvements	2,382,783	—	—	2,382,783
Buildings, improvements, and fixed equipment	136,249,869	20,607,161	—	156,857,030
Equipment	90,345,931	26,823,505	—	117,169,436
Construction in progress	13,428,356	—	(11,047,666)	2,380,690
Total cost	<u>252,001,364</u>	<u>48,886,424</u>	<u>(11,047,666)</u>	<u>289,840,122</u>
Allowances for depreciation:				
Land improvements	(2,269,055)	(25,218)	—	(2,294,273)
Buildings, improvements, and fixed equipment	(73,304,692)	(5,815,940)	—	(79,120,632)
Equipment	(75,569,483)	(6,468,659)	—	(82,038,142)
Total allowances	<u>(151,143,230)</u>	<u>(12,309,817)</u>	<u>—</u>	<u>(163,453,047)</u>
Net property and equipment	<u>\$100,858,134</u>	<u>\$36,576,607</u>	<u>\$ (11,047,666)</u>	<u>\$126,387,075</u>

**7. Other Assets**

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

	<b>2014</b>	<b>2013</b>
Goodwill	<b>\$2,449,046</b>	\$2,520,038
Trade name	<b>1,431,391</b>	1,468,813
Non-compete agreements	<b>785,770</b>	1,414,387
Medical records and workforce	<b>1,441,582</b>	1,520,572
Other	<b>125,000</b>	175,000
	<u><b>\$6,232,789</b></u>	<u>\$7,098,810</u>

Goodwill and trade name are being amortized over a period of forty years. Medical records and workforce are amortized over a period of twenty years. The non-compete agreements are being amortized over a period of three years. Amortization expense for intangibles was \$866,021 and \$928,216 for the years ended June 30, 2014 and 2013, respectively. Amortization expense for the next three years is estimated to approximate \$866,000, \$395,000, and \$212,000.

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

**8. Long-term Debt**

Changes in long-term debt are summarized as follows:

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

  

	<b>Balance July 01, 2012</b>	<b>Additions</b>	<b>Principal Payments</b>	<b>Balance June 30, 2013</b>
Series 1998A Bonds	\$ 1,515,000	\$ –	\$1,515,000	\$ –
Series 1998B Bonds	8,370,000	–	870,000	7,500,000
Series E-5-A Bonds	90,705,000	–	1,580,000	89,125,000
Total outstanding	<u>100,590,000</u>	<u>\$ –</u>	<u>\$3,965,000</u>	<u>96,625,000</u>
Less current portion	<u>(3,965,000)</u>			<u>(4,115,000)</u>
Long-term portion	<u>\$ 96,625,000</u>			<u>\$92,510,000</u>

Blount County issued, on behalf of the Hospital, Hospital Revenue Refunding Bonds, Series 1998A and Hospital Revenue Improvement Bonds, Series 1998B, in December 1998. The Series 1998A Bonds matured with the final payment of \$1,515,000 in 2013. The Series 1998B Bonds were subject to redemption at the option of the County, in whole or in part, at the redemption price of par, without premium, plus accrued interest to the redemption date. The County exercised its redemption option in January 2014.

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

## Blount Memorial Hospital, Inc.

### Notes to Financial Statements (continued)

#### **8. Long-term Debt (continued)**

To refund the Series E-5-A Bonds, in December 2013 Blount County issued, on behalf of the Hospital, \$89,125,000 of General Obligation Refunding Bonds, Series 2013A. The Series 2013A Bonds bear interest at a variable rate based on the product of the one month Libor rate and a factor (67% at June 30, 2014) plus the applicable spread based on the investment rating of the bonds (.43% at June 30, 2014). The Series 2013A Bonds mature in increasing annual amounts ranging from \$3,375,000 in 2015 to \$8,425,000 in 2029 and are subject to redemption at the option of the County, in whole or in part, at the redemption price of par plus accrued interest to the redemption date.

In January 2014, Blount County issued on behalf of the Hospital, \$4,288,400 of Hospital Revenue Refunding Bonds, Series 2014. The Series 2014 Bonds were used to refund the Series 1998B bonds. The Series 2014 Bonds mature in varying annual amounts ranging from approximately \$567,000 to a final payment of approximately \$842,000 on July 1, 2019 at an interest rate of 1.68%. The Series 2014 Bonds are subject to redemption at the option of the County, in whole or in part, at the redemption price of par, without premium, plus accrued interest to the redemption date.

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

The Hospital records the fair value liability of its interest rate swaps, which were determined by an independent third-party advisory firm from a model that calculates future cash flows by projecting forward rates and then discounts those cash flows to their present value. The fair value liability of the interest rate swaps increased by \$410,637 in 2014 and decreased by \$5,850,781 in 2013.

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

**8. Long-term Debt (continued)**

As of June 30, 2014, the Hospital was not exposed to credit risk because the swaps have negative fair values. However, should interest rates change and the fair value of the swaps become positive, the Hospital would be exposed to credit risk in the amount of the fair value of the swaps. As of June 30, 2014, the counterparty to the swaps, Deutsche Bank, was rated A2/A+/A+ by Moody's, Standard & Poor's and Fitch, respectively.

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

Maturities and mandatory sinking fund payments related to the balances outstanding as of June 30, 2014, are summarized as follows:

	Series 2013A	Series 2014	Total
2015	\$ 3,375,000	\$ 797,438	\$ 4,172,438
2016	3,525,000	566,778	4,091,778
2017	3,700,000	626,295	4,326,295
2018	3,875,000	692,100	4,567,100
2019	4,075,000	763,889	4,838,889
2020 – 2024	29,025,000	841,900	29,866,900
2025 – 2029	38,350,000	–	38,350,000
	<u>\$85,925,000</u>	<u>\$4,288,400</u>	<u>\$90,213,400</u>

Future interest payments related to the bonds are as follows (interest for variable portion of the Series 2013A Bonds is determined using the rate in effect at June 30, 2014, which was 0.53%).

	Series 2013A	Series 2014	Total
2015	\$ 2,714,360	\$ 60,752	\$ 2,775,112
2016	2,696,367	53,848	2,750,215
2017	2,677,565	43,822	2,721,387
2018	2,657,835	32,743	2,690,578
2019	2,637,163	20,508	2,657,671
2020 – 2024	11,863,917	7,014	11,870,931
2025 – 2029	5,085,158	–	5,085,158
	<u>\$30,332,365</u>	<u>\$218,687</u>	<u>\$30,551,052</u>

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

**8. Long-term Debt (continued)**

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

As of June 30, 2014, the outstanding bonds do not require funds to be held by trustees. Funds held by trustees for the outstanding bond issues consisted of the following as of June 30, 2013:

Debt service reserve funds	<b>\$1,595,227</b>
Bond funds	<b><u>1,107,282</u></b>
	<b><u><u>\$2,702,509</u></u></b>

In 2014, the Hospital adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption of GASB Statement No. 65 provides for bond issuance costs to be recognized as an expense when incurred and prior period financial statements to be restated to eliminate any previously unamortized issuance costs or deferred losses on refundings. Accordingly, the accompanying financial statements as of and for the year ended June 30, 2013 have been retroactively restated for the change, which resulted in a decrease in excess of expenses over revenues of \$110,187 and a decrease in net position of \$1,536,254. The net position on July 1, 2012 was also restated and decreased by \$1,646,441 for the change.

**9. Retirement Plan**

The Blount Memorial Hospital Retirement Plan (the "Plan") includes two defined contribution plans available to all employees who are age 18 or older. New participants who have completed 1,000 hours of service vest 20% each year from two years of service to six years of service. The Plan provides for the Hospital to contribute an amount equal to 3% of each eligible employee's compensation plus a matching contribution (limited to 3% of compensation) based upon voluntary employee contributions to the Plan. Plan contributions are made biweekly. Hospital contributions to the Plan, net of forfeitures used of \$130,000 and \$170,000 in 2014 and 2013, respectively, totaled \$3,733,159 and \$3,851,244 in 2014 and 2013, respectively. Employee contributions were \$3,535,826 and \$3,527,857 in 2014 and 2013, respectively.

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

**10. Blended Component Units**

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

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

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

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

**10. Blended Component Units (continued)**

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

	Hospital	Foundation	BMPG	Total
Operating revenues:				
Net patient service revenue	\$157,556,127	\$ –	\$25,258,589	\$182,814,716
Other revenue	38,455,362	–	–	38,455,362
Total operating revenues	196,011,489	–	25,258,589	221,270,078
Operating expenses:				
Depreciation and amortization	16,152,257	–	–	16,152,257
Other operating expenses	171,458,111	569,138	37,275,780	209,303,029
Total operating expenses	187,610,368	569,138	37,275,780	225,455,286
Operating income (loss)	8,401,121	(569,138)	(12,017,191)	(4,185,208)
Nonoperating income:				
Investment income	7,740,570	171,957	–	7,912,527
Contributions and other	846,410	580,372	–	1,426,782
Total nonoperating income	8,586,980	752,329	–	9,339,309
Excess of revenue over expenses (expenses over revenue)	16,988,101	183,191	(12,017,191)	5,154,101
Net position at beginning of year	162,982,610	1,381,029	938,194	165,301,833
Transfers	(12,240,877)	–	12,240,877	–
Net position at end of year	\$167,729,834	\$1,564,220	\$ 1,161,880	\$170,455,934

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

	Hospital	Foundation	BMPG	Total
Net cash provided by (used in):				
Operating activities	\$30,929,319	\$ –	\$(12,028,054)	\$18,901,265
Noncapital financing activities	1,426,782	–	–	1,426,782
Capital and related financing activities	(24,154,422)	–	–	(24,154,422)
Investing activities	(8,132,058)	65,303	12,240,877	4,174,122
Net increase in cash and cash equivalents	69,621	65,303	212,823	347,747
Cash and cash equivalents at beginning of year	6,953,259	279,822	347,973	7,581,054
Cash and cash equivalents at end of year	\$ 7,022,880	\$ 345,125	\$ 560,796	\$ 7,928,801

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

**10. Blended Component Units (continued)**

**Condensed Combining Statement of Net Position  
June 30, 2013**

	<b>Hospital</b>	<b>Foundation</b>	<b>BMPG</b>	<b>Total</b>
<b>Assets</b>				
Current assets	\$ 36,086,513	\$ –	\$1,817,495	\$ 37,904,008
Assets limited as to use	106,862,933	1,381,029	–	108,243,962
Property and equipment, net	126,387,075	–	–	126,387,075
Other noncurrent assets	9,138,810	–	–	9,138,810
<b>Total assets</b>	<b>278,475,331</b>	<b>1,381,029</b>	<b>1,817,495</b>	<b>281,673,855</b>
<b>Deferred outflows of resources</b>				
Total assets and deferred outflows of resources	9,994,413	–	–	9,994,413
	<b>\$288,469,744</b>	<b>\$1,381,029</b>	<b>\$1,817,495</b>	<b>\$291,668,268</b>
<b>Liabilities and net position</b>				
Current liabilities	\$ 22,982,721	\$ –	\$ 879,301	\$ 23,862,022
Long-term liabilities	102,504,413	–	–	102,504,413
<b>Total liabilities</b>	<b>125,487,134</b>	<b>–</b>	<b>879,301</b>	<b>126,366,435</b>
<b>Net position:</b>				
Net investment in capital assets	32,464,584	–	–	32,464,584
Restricted, nonexpendable	–	935,838	–	935,838
Unrestricted	130,518,026	445,191	938,194	131,901,411
<b>Total net position</b>	<b>162,982,610</b>	<b>1,381,029</b>	<b>938,194</b>	<b>165,301,833</b>
<b>Total liabilities and net position</b>	<b>\$288,469,744</b>	<b>\$1,381,029</b>	<b>\$1,817,495</b>	<b>\$291,668,268</b>

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

**10. Blended Component Units (continued)**

**Condensed Combining Statement of Revenues, Expenses and Changes in Net Position  
Year ended June 30, 2013**

	<b>Hospital</b>	<b>Foundation</b>	<b>BMPG</b>	<b>Total</b>
Operating revenues:				
Net patient service revenue	\$157,290,189	\$ –	\$17,923,201	\$175,213,390
Other revenue	31,645,236	–	–	31,645,236
Total operating revenues	188,935,425	–	17,923,201	206,858,626
Operating expenses:				
Depreciation and amortization	13,178,744	–	–	13,178,744
Other operating expenses	169,583,404	392,355	31,167,803	201,143,562
Total operating expenses	182,762,148	392,355	31,167,803	214,322,306
Operating income (loss)	6,173,277	(392,355)	(13,244,602)	(7,463,680)
Nonoperating (loss) income:				
Investment income	(779,259)	116,691	–	(662,568)
Contributions and other	138,097	358,299	–	496,396
Total nonoperating (loss) income	(641,162)	474,990	–	(166,172)
Excess of revenue over expenses (expenses over revenue)	5,532,115	82,635	(13,244,602)	(7,629,852)
Net position at beginning of year	171,633,291	1,298,394	–	172,931,685
Transfers	(14,182,796)	–	14,182,796	–
Net position at end of year	\$162,982,610	\$1,381,029	\$ 938,194	\$165,301,833

**Condensed Combining Statement of Cash Flows  
Year ended June 30, 2013**

	<b>Hospital</b>	<b>Foundation</b>	<b>BMPG</b>	<b>Total</b>
Net cash provided by (used in):				
Operating activities	\$ 13,563,063	\$ –	\$(14,017,041)	\$ (453,978)
Noncapital financing activities	496,396	–	–	496,396
Capital and related financing activities	(50,227,426)	–	–	(50,227,426)
Investing activities	33,097,702	3,266	14,182,796	47,283,764
Net (decrease) increase in cash and cash equivalents	(3,070,265)	3,266	165,755	(2,901,244)
Cash and cash equivalents at beginning of year	10,023,524	276,556	182,218	10,482,298
Cash and cash equivalents at end of year	\$ 6,953,259	\$ 279,822	\$ 347,973	\$ 7,581,054

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

**Board of Directors**

Robert P. Redwine, President  
Ted L. Flickinger, M.D., Vice President  
Jim C. Fiegle  
Carolyn Forster  
Francis M. Gross, Ed.D  
Clarence B. Williams  
David E. Pesterfield  
David L. Cockrill  
Denny J. Mayes

**Executive Administration**

I. Donald Heinemann, II  
Jane T. Nelson  
Jonathan Smith  
Sonya Newman  
Clay Puckett  
Connie W. Huffman  
Harold Naramore, M.D.



Independent Auditor's 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 Board of Directors  
Blount Memorial Hospital, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Blount Memorial Hospital, Inc. (the "Hospital") as of and for the year ended June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated September 11, 2014.

**Internal Control Over Financial Reporting**

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

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

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

To the Board of Directors  
Blount Memorial Hospital, Inc.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Coulter & Justus, P.C.*

September 11, 2014