

West Tennessee Healthcare and Related Affiliates

**Financial Statements and
Supplementary Information**

Years Ended June 30, 2019 and 2018

Table of Contents

Independent Auditors' Report	1
Roster of Governance and Management Officials	4
Management's Discussion and Analysis	5
Financial Statements:	
Statements of Net Position	12
Statements of Revenues and Expenses and Changes in Net Position	13
Statements of Cash Flows.....	14
Notes to Financial Statements	16
Required Supplementary Information:	
Schedule of Changes in Net Pension and OPEB Liability (Asset) and Related Ratios	48
Schedule of Contributions	49
Other Information:	
Deductions From Gross Patient Service Revenues.....	50
Schedule of Changes in Long-term Debt by Individual Issue	51
Compliance Information:	
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 <i>Government Auditing Standards</i>	52

Independent Auditors' Report

Board of Trustees
West Tennessee Healthcare and Related Affiliates
Jackson, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of West Tennessee Healthcare and Related Affiliates (the "Company"), as of and for the years ended June 30, 2019 and 2018, and the related notes to financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 11, the Schedule of Changes in Net Pension and OPEB Liability (asset) and Related Ratios on page 48, and the Schedule of Contributions on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB"), which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Roster of Governance and Management Officials on page 4, the Deductions from Gross Patient Service Revenues information on page 50 and the Schedule of Changes in Long-term Debt by Individual Issue on page 51 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Deductions from Gross Patient Service Revenues and the Schedule of Changes in Long-term Debt by Individual Issue information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Roster of Governance and Management Officials has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2019, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Memphis, Tennessee
October 4, 2019

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

Government Officials — Board of Trustees

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

Management Officials

James Ross	President, Chief Executive Officer
Tina Prescott	Executive Vice-President, Chief Operating Officer
Jeff Blankenship	Vice-President, Chief Financial Officer
Currie Higgs	Vice-President, General Counsel
Dr. Robert Pryor	Chief Physician Executive
Deann Thelen	Vice-President, Chief Executive Officer JMCGH
Amy Garner	Vice-President, Chief Compliance Officer
Dr. Jackie Taylor	Chief Medical Officer
Jeff Frieling	Vice-President, Chief Information Officer
Wendie Carlson	Vice-President, Chief Human Resources Officer
Tim Adams	Vice-President of Hospital Services
Karen Utley	Vice-President, Chief Patient Satisfaction Officer
Darrell King	Vice-President of West Tennessee Medical Group
Teresa Freeman	Vice-President, Chief Nursing Officer JMCGH

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

This section of the financial statements of West Tennessee Healthcare and Related Affiliates (the "Company") presents management's analysis of the Company's financial performance during the fiscal years ended June 30, 2019 and 2018.

Financial highlights

2019

The Company experienced an operating loss for the year, net of interest expense, of \$44.6 million representing an operating margin of -5.1%.

In November 2018, the Company issued the Series 2018A Hospital Revenue Refunding Bonds in the amount of \$62.87 million and Series 2018B Taxable Hospital Revenue Bonds in the amount of \$91.025 million. The proceeds of the Series 2018A Bonds, together with other funds, were used by the Company to refund all outstanding Bonds from the Series 2008 Bond issue and reimburse the Company for the \$90 million financed as part of the Tennova West acquisition.

Total operating revenues were 14% above the prior year, an increase of \$106 million. The increase was driven primarily by a full 12 months of activity from the Tennova West acquisition in fiscal year 2019 as opposed to one month of activity from Tennova West in fiscal year 2018. The increase in revenue with the acquisition was offset by adjustments approximating \$32 million made to decrease net patient service revenue and increase the allowance for doubtful accounts and contractual allowances resulting from 1) the run-out of legacy accounts receivable from the revenue cycle conversion in May 2018 with related deterioration in the estimate of collectability for remaining balances, and 2) the anticipated write-off of accounts receivable with the conversion of Tennova facilities revenue cycle in May 2019 and the related termination of transitional services in October 2019. These adjustments were based on management's best estimate of the estimated net realizable value of the related receivables.

Operating expenses increased by \$148.2 million or 20%, also due to a full 12 months of activity from the Tennova West acquisition in fiscal year 2019. Operating expenses were higher than anticipated with operational transitions post-acquisition of the Tennova West facilities and related operational adjustments throughout the year as the organization adjusted itself to the larger revenue base and incorporated the acquired entities into the health system.

The Company's net non-operating revenue (expense) increased to \$1.6 million in expense in 2019 as compared to \$1.2 million in expense in 2018. The most material change was an increase in interest expense related to the refunding of bonds.

2018

The Company experienced an operating loss for the year, net of interest expense, of \$0.2 million representing an operating margin of (0.0)%. The year was one of significant transition for the Company, with several notable issues impacting the base operation and a crucial transaction to expand the Company's presence in the region.

On May 31, 2018, the Company acquired substantially all of the assets of Community Health Systems in West Tennessee, operating locally under the brand Tennova Healthcare (hereafter referred to as "Tennova West"). The acquired operation included three hospitals, 19 clinics, and an EMS operation. The acquired hospitals were located in Dyersburg, Martin, and Jackson, Tennessee. The acquisition will enhance the Company's ability to fulfill its mission in a sustainable business model, with the goal of improving quality and access to care for west Tennesseans. The acquisition is consistent with the organization's strategic vision of becoming a more complete health system. On June 1, 2018, the Company began operation of the acquired services, maintaining the same level of service in each location with the exception of the hospital located in north Jackson, which became a satellite of the Company's flagship hospital, Jackson-Madison County General Hospital ("JMCGH"). The satellite campus is just 4.7 miles from the flagship hospital. The purchase included fixed assets and limited working capital. The total purchase price was \$73.2 million. The Company obtained \$90 million in interim financing to fund

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

the transaction and support working capital during provider enrollment, with a plan to obtain permanent financing in the coming fiscal year.

On May 5, 2018, the Company replaced its legacy revenue cycle systems for acute hospitals with a new system integrated with the organization's hospital electronic health record. As a result, patient accounts receivable were temporarily and unusually high at June 30, 2018.

Total operating revenues were 4% above the prior year, an increase of approximately \$26.6 million. The increase was driven primarily by revenue growth for the flagship hospital, in addition to one month of revenue for the first month of operation of the newly acquired operations described above.

Total salaries and benefits expense increased by \$18 million, or 5%, due to several factors, most notably agency staffing utilization and employee rate adjustments awarded during the fiscal year. Supplies and other costs increased by \$21.4 million, or 8%, driven primarily by increased drug costs as a result of changes to JMCGH's status in the federal 340b drug purchasing program.

The Company's net non-operating revenue (expense) went from revenue of \$10.1 million in 2017 to expense of \$1.2 million in 2018. The change is primarily related to a decrease in investment income with the shift in the value of the investment portfolio from the previous year. In addition, non-operating expenses increased with the acquisition of the Tennova West hospitals described above, with the cost of diligence and advisory services related to the transaction of \$5.8 million.

As of December 31, 2017, the Company discontinued the practice of offering post-employment medical benefits beyond what is required by regulation. After the change, the Company's OPEB plan was overfunded by \$3.6 million. In February 2018, the Company distributed \$2.5 million of the excess to Plan participants. The remainder of the balance will continue to be drawn down as expenses are incurred by the Plan's existing beneficiaries.

Overview of the financial statements

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

Required basic financial statements

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

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

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

**West Tennessee Healthcare and Related Affiliates
Management's Discussion and Analysis**

Financial analysis

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

Table A-1

Condensed Statements of Net Position (in millions of dollars)

	June 30			Dollar	Percentage	Dollar	Percentage
	2019	2018	2017	Increase (Decrease) 2018-2019	Increase (Decrease) 2018-2019	Increase (Decrease) 2017-2018	Increase (Decrease) 2017-2018
Current assets	\$ 197.4	\$ 207.8	\$ 167.6	\$ (10.4)	-5%	\$ 40.2	24%
Capital assets, net	432.4	428.2	371.0	4.2	1%	57.2	15%
Other non-current assets	394.5	413.8	401.0	(19.3)	-5%	12.8	3%
Total assets	1,024.3	1,049.8	939.6	(25.5)	-2%	110.2	12%
Deferred outflows of Resources	57.4	60.4	78.0	(3.0)	-5%	(17.6)	-23%
Total assets and deferred outflows	\$ 1,081.7	\$ 1,110.2	\$ 1,017.6	\$ (28.5)	-3%	\$ 92.6	9%
Current liabilities	\$ 84.0	\$ 170.4	\$ 74.2	\$ (86.4)	-51%	\$ 96.2	130%
Non-current liabilities	475.4	388.4	405.5	87.0	22%	(17.1)	-4%
Total liabilities	559.4	558.8	479.7	0.6	0%	79.1	16%
Net position:							
Unrestricted	381.7	411.4	394.2	(29.7)	-7%	17.2	4%
Invested in capital assets	134.4	129.3	133.0	5.1	4%	(3.7)	-3%
Restricted	6.2	10.7	10.7	(4.5)	-42%	-	0%
Total net position	522.3	551.4	537.9	(29.1)	-5%	13.5	3%
Total liabilities and net position	\$ 1,081.7	\$ 1,110.2	\$ 1,017.6	\$ (28.5)	-3%	\$ 92.6	9%

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

As indicated in Table A-1, net position decreased from fiscal 2018 by \$29.1 million or 5% with the Company's financial performance in fiscal year 2019.

1. Total assets decreased by \$25.5 million or 2% when compared to 2018. This decrease was driven primarily by a decrease in accounts receivable balances as a result of increased collections subsequent to the implementation of the new revenue cycle system in May 2018, just prior to the end of the previous fiscal year. Other non-current assets decreased primarily due to the elimination of the \$16.9 million Wellness Center receivable that was relieved with the purchase of the LIFT Wellness Center.
2. Deferred outflows decreased by \$3 million or 5% due to the actual versus projected earnings of the Company's pension plan investments.
3. Total liabilities stayed relatively flat as compared to the prior year, as the debt incurred by the 2018 Bond Issues offset the repayment of the \$90 million bridge loan.

As indicated in Table A-1, net position increased from fiscal 2017 by \$13.5 million or 3% with the Company's financial performance in fiscal year 2018.

1. Total assets increased by \$110.2 million or 12% due primarily to the Company's acquisition of Tennova West's assets and the implementation of a new revenue cycle system, which caused accounts receivable to be temporarily and unusually high at yearend.
2. Deferred outflows decreased by \$17.6 million or 23% due to the actual versus projected earnings of the Company's pension plan investments.
3. Total liabilities increased by \$79.1 million or 16% due to the \$90 million interim financing the Company obtained as part of the Tennova West acquisition, offset by a decrease in net pension liability.

Table A-2

Condensed Statements of Revenues and Expenses and Changes in Net Position (in millions of dollars)

	Year Ended June 30			Dollar Increase (Decrease)	Percentage Increase (Decrease)	Dollar Increase (Decrease)	Percentage Increase (Decrease)
	2019	2018	2017	2019-2018	2019-2018	2017-2018	2017-2018
Net patient service revenues	\$ 830.9	\$ 724.5	\$ 691.0	\$ 106.4	15%	\$ 33.5	5%
Other operating revenues	49.3	49.7	56.6	0.4	-1%	(6.9)	-12%
Total operating revenues	880.2	774.2	747.6	106.0	14%	26.6	4%
Salaries and benefits	485.3	415.9	397.9	69.4	17%	18.0	5%
Supplies and other expenses	369.8	295.0	273.6	74.8	25%	21.4	8%
Depreciation and amortization	52.6	48.6	46.6	4.0	8%	2.0	4%
Total operating expenses	907.7	759.5	718.1	148.2	20%	41.4	6%
Income from operations	(27.5)	14.7	29.5	(42.2)	-287%	(14.8)	-50%
Net non-operating revenues (expenses)	(1.6)	(1.2)	10.1	(0.4)	33%	(11.3)	-112%
Change in net position	(29.1)	13.5	39.6	(42.6)	-316%	(26.1)	-66%
Beginning net position	551.4	537.9	498.3	13.5	3%	39.6	8%
Ending net position	\$ 522.3	\$ 551.4	\$ 537.9	(29.1)	-5%	\$ 13.5	3%

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

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

Operating revenues increased by \$106 million or 14% from 2018 to 2019.

1. The increase in revenue was driven by a full 12 months of activity from the Tennova West acquisition in fiscal year 2019 as opposed to 1 month of activity from Tennova West in fiscal year 2018.
2. Adjustments approximating \$32 million were made to decrease net patient service revenue and increase the allowance for doubtful accounts and contractual allowances resulting from 1) the run-out of legacy accounts receivable from the revenue cycle conversion in May 2018 with related deterioration in the estimate of collectability for remaining balances, and 2) the anticipated write-off of accounts receivable with the conversion of Tennova facilities revenue cycle in May 2019 and the related termination of transitional services in October 2019. These adjustments were based on management's best estimate of the estimated net realizable value of the related receivables.
3. Other operating revenue remained flat in fiscal year 2019 as compared to 2018.

Operating revenues increased by \$26.6 million or 4% from 2017 to 2018.

1. In the final month of the fiscal year, the Company acquired the operations of Tennova West and began operation. The addition of these services in fiscal year 2018 accounted for an increase in operating revenue of approximately \$13.3 million over the prior year.
2. The remaining increase was due to routine revenue growth from hospital inpatient and outpatient services, particularly for the JMCGH flagship hospital.
3. In the final quarter of fiscal year 2017, the Company acquired and began operating a primary care practice added to the Company's medical group practice. The addition of this practice accounted for an increase in operating revenue of approximately \$1.0 million over the prior year.

Operating expense increased by \$148.2 million or 20% when comparing 2019 to 2018.

1. The increase in expense was driven by a full 12 months of activity from the Tennova West acquisition in fiscal year 2019 as opposed to 1 month of activity from Tennova West in fiscal year 2018. In this first year post-acquisition, operating expenses were higher than expected with transitional activity related to the incorporation of the acquired entities into the health system and adjustment of operations post-acquisition.
2. Total salaries and benefits expense increased by \$69.4 million or 17% during the fiscal year due to a full year of Tennova West expense.
3. Supplies and other costs increased by \$74.8 million or 25%, driven by a full year of Tennova West expense in addition to a significant increase in drug costs at the Kirkland Cancer Center.

Operating expense increased by \$41.4 million or 6% when comparing 2018 to 2017.

1. In the final month of the fiscal year, the Company acquired Tennova West operations and began operation. The addition of these services in fiscal year 2018 accounted for an increase in total operating expense of approximately \$13.2 million over the prior year.

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

2. Total salaries and benefits expense increased by \$18 million or 5% during the fiscal year with routine increases in staffing, routine employee rate adjustments and continued utilization of agency staffing for the flagship hospital in response to nursing turnover and vacancies.
3. Supplies and other costs increased by \$21.4 million or 8%, driven by routine escalation of administrative costs and a significant increase in drug costs due to a change in the 340B status at the flagship hospital.

Capital assets

As of June 30, 2019, the Company had \$432.4 million invested in a variety of capital assets, as reflected in Table A-3, which represents a net increase (additions, disposals and depreciation) of \$4.2 million or 1% from the end of last year.

Table A-3

Capital Assets (in millions of dollars)

	June 30	
	2019	2018
Land and land improvements	\$ 57.1	\$ 56.8
Buildings	384.2	360.8
Equipment	769.0	746.3
Construction in progress	17.9	9.6
Total capital assets	1,228.2	1,173.5
Accumulated depreciation	(795.8)	(745.3)
Capital assets, net	<u>\$ 432.4</u>	<u>\$ 428.2</u>

Long-term debt

In November 2018, the Company issued the Series 2018A Hospital Revenue Refunding Bonds in the amount of \$62.87 million and Series 2018B Taxable Hospital Revenue Bonds in the amount of \$91.025 million. The proceeds of the Series 2018A Bonds, together with other funds, were used by the Company to refund all outstanding Bonds from the Series 2008 Bond issue. The proceeds of the Series 2018B Bonds were used to reimburse the Company for the \$90 million financed as part of the Tennova West acquisition.

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

As of June 30, 2019, the Company had \$349.1 million in outstanding long-term debt and as of June 30, 2018, the Company had \$265.7 million in outstanding long-term debt. This represents a net increase of \$83.4 million over the prior fiscal year. For the year ended June 30, 2018, the Company had total outstanding debt of \$355.7 million, which included the \$90 million financing as part of the Tennova West acquisition.

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

Future outlook

The 2019 fiscal year was one of great transition, with a revenue cycle system conversion and a significant acquisition occurring just prior to the beginning of the year. Both projects resulted in significant disruption to

West Tennessee Healthcare and Related Affiliates Management's Discussion and Analysis

operating performance. With these projects behind, the Board of Trustees and Management have a positive outlook for the future, re-focusing the organization's commitment to high quality care and exceptional patient experience, while maintaining stable financial performance. The Company's long range financial goals have been reviewed and updated to be consistent with what is required to maintain financial sustainability and the coming year's budget has been adopted accordingly. In addition, the organizational structure has been re-aligned to focus on accountability for performance to ensure planned improvements are realized.

Requests for information

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

West Tennessee Healthcare and Related Affiliates
Statements of Net Position
June 30, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,266	\$ 13,848
Accounts receivable:		
Patient accounts receivable, less allowances for doubtful accounts of approximately \$36,449 in 2019, and \$40,097 in 2018	140,933	156,842
Other	5,062	8,254
Total accounts receivable	<u>145,995</u>	<u>165,096</u>
Inventories	8,694	12,488
Prepaid expenses	12,216	11,480
Assets limited as to use - current portion of debt service reserve fund	6,195	4,887
Total current assets	<u>197,366</u>	<u>207,799</u>
Assets limited as to use:		
Debt service reserve fund	-	5,792
Board designated contingency fund	9,270	9,270
Other internally designated	351,149	347,974
Total assets limited as to use	<u>360,419</u>	<u>363,036</u>
Other assets:		
Intangibles	1,706	1,456
Wellness Center loan receivable	-	16,872
Investment in joint venture	28,252	27,597
Other	4,142	4,879
Total other assets	<u>34,100</u>	<u>50,804</u>
Capital assets:		
Land and land improvements	57,120	56,807
Buildings	384,174	360,813
Fixed equipment	223,077	218,045
Moveable equipment	545,941	528,211
Construction in progress	17,924	9,617
	<u>1,228,236</u>	<u>1,173,493</u>
Accumulated depreciation	(795,804)	(745,270)
Total capital assets	<u>432,432</u>	<u>428,223</u>
Total assets	<u>1,024,317</u>	<u>1,049,862</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charges on refundings	26,377	27,924
Pension contributions subsequent to measurement date	13,470	12,370
Difference between expected and actual pension experience	5,323	4,239
Difference between actual and projected earnings on pension plan investments	4,207	7,583
Excess consideration provided for acquisitions	8,007	8,290
	<u>57,384</u>	<u>60,406</u>
Total deferred outflows of resources	<u>57,384</u>	<u>60,406</u>
Total assets and deferred outflows of resources	<u>\$ 1,081,701</u>	<u>\$ 1,110,268</u>

See accompanying notes.

	2019	2018
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 26,609	\$ 31,390
Accrued compensation and related expenses	28,695	25,893
Accrued interest expense	4,118	3,297
Other accrued expenses	9,779	8,397
Estimated third-party settlements	4,713	5,126
Bridge loan payable	-	90,000
Long-term debt due within one year	10,090	6,355
	84,004	170,458
Other liabilities:		
Long-term debt, less amounts due within one year	357,924	273,637
Net pension liability	117,463	114,736
	475,387	388,373
Total liabilities	559,391	558,831
NET POSITION		
Unrestricted	381,713	411,411
Net investment in capital assets	134,402	129,347
Restricted for debt service	6,195	10,679
	522,310	551,437
Total liabilities and net position	\$ 1,081,701	\$ 1,110,268

West Tennessee Healthcare and Related Affiliates
Statements of Revenues and Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Net patient service revenues, net of provision for bad debts of \$68,462 in 2019, and \$52,027 in 2018	\$ 830,944	\$ 724,510
Other revenues	<u>49,262</u>	<u>49,702</u>
Total operating revenues	880,206	774,212
Operating expenses:		
Salaries and benefits	485,277	415,894
Supplies and other	369,773	295,077
Depreciation and amortization	<u>52,663</u>	<u>48,584</u>
Total operating expenses	<u>907,713</u>	<u>759,555</u>
Operating (loss) income	(27,507)	14,657
Nonoperating (expenses) revenues:		
Investment income	19,431	20,701
Interest expense	(17,121)	(14,814)
Contributions to affiliated entities	(2,099)	(958)
Acquisition costs and other	<u>(1,831)</u>	<u>(6,104)</u>
Nonoperating (expenses) revenues, net	<u>(1,620)</u>	<u>(1,175)</u>
Change in net position	(29,127)	13,482
Net position, beginning of year	<u>551,437</u>	<u>537,955</u>
Net position, end of year	<u>\$ 522,310</u>	<u>\$ 551,437</u>

See accompanying notes.

West Tennessee Healthcare and Related Affiliates
Statements of Cash Flows
Years Ended June 30, 2019 and 2018
(in thousands)

	<u>2019</u>	<u>2018</u>
Operating activities:		
Receipts from third-party payors and patients	\$ 850,045	\$ 676,793
Receipts from other operations	49,262	49,701
Payments to suppliers	(371,210)	(296,545)
Payments to employees	(478,556)	(405,975)
Net cash provided by operating activities	<u>49,541</u>	23,974
Noncapital financing activity:		
Capital contributions to City of Jackson and Madison County	<u>(2,099)</u>	<u>(958)</u>
Net cash used in noncapital financing activity	<u>(2,099)</u>	(958)
Investing activities:		
Interest and dividends received	719	1,653
Purchases of investments	(114,841)	(90,437)
Proceeds from sales of investments	<u>134,862</u>	<u>99,749</u>
Net cash provided by investing activities	<u>20,740</u>	10,965
Capital and related financing activities:		
Acquisition of Tennova West, including acquisition related costs	-	(79,038)
Purchases of capital assets	(29,738)	(40,594)
Proceeds from sale of capital assets	971	-
Repayment of long-term debt	(80,926)	(6,095)
Proceeds from issuance of long-term debt	159,060	-
Proceeds from bridge loan	-	90,000
Repayment of bridge loan	(90,000)	-
Interest paid on long-term debt	(15,300)	(13,621)
Other	<u>(1,831)</u>	<u>(277)</u>
Net cash used in capital and related financing activities	<u>(57,764)</u>	<u>(49,625)</u>
Change in cash and cash equivalents	<u>10,418</u>	(15,644)
Cash and cash equivalents, beginning of year	<u>13,848</u>	<u>29,492</u>
Cash and cash equivalents, end of year	<u>\$ 24,266</u>	<u>\$ 13,848</u>

See accompanying notes.

West Tennessee Healthcare and Related Affiliates
Statements of Cash Flows
Years Ended June 30, 2019 and 2018
(in thousands)

(Continued)

	<u>2019</u>	<u>2018</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Income (loss) from operations	\$ (27,507)	\$ 14,657
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Pension expense	17,389	17,705
Depreciation	52,287	48,220
Provision for bad debts	68,462	52,027
(Gain) loss on disposals of capital assets	(422)	500
Amortization	376	364
Changes in operating assets and liabilities:		
Accounts receivable	(49,361)	(99,744)
Inventories and prepaid expenses	3,058	(1,423)
Other assets	(261)	(227)
Accounts payable and accrued expenses	(597)	7,526
Estimated third-party settlements	(413)	(3,261)
Deferred outflows - contributions to pension plan	(13,400)	(12,300)
Deferred outflows - contributions to 415(m) plan	(70)	(70)
Net cash provided by operating activities	<u>\$ 49,541</u>	<u>\$ 23,974</u>
Supplementary schedule of noncash investing activities:		
Change in fair value of investments	<u>\$ 18,712</u>	<u>\$ 19,048</u>
Supplementary schedule of noncash capital and related financing activities:		
Capital asset acquired through forgiveness of Wellness Center Loan Receivable	<u>\$ 16,872</u>	<u>\$ -</u>
Capital asset acquired with capital leases	<u>\$ 10,435</u>	<u>\$ -</u>
Deferred outflows of resources recognized for loss on defeasance of debt	<u>\$ 847</u>	<u>\$ -</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

1. Significant Accounting Policies

Organization and basis of presentation

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

Proprietary fund accounting

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

Cash and cash equivalents

The Company considers temporary cash investments with a maturity of three months or less when purchased to be cash and cash equivalents. In accordance with Tennessee Code Annotated Section 9-1-118, the full amount of principal and any accrued interest of each such deposit is insured by the Federal Deposit Insurance Corporation ("FDIC"). For deposits above and beyond the amount covered by the FDIC, the Company follows the requirements as set forth in Tennessee Code Annotated Title 9 Chapter 4, Part 5, "Collateral Pool for Public Deposits Act of 1990," whereby "Local governments with bank deposits that are in excess of the amount covered by FDIC insurance must either maintain the deposit with a bank that is a member of the bank collateral pool or collateralize the deposit in accordance with State statutes."

Investments

The Company's investments are reported at fair value in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*, which establishes a fair value hierarchy. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The fair values of investments in certain private equity, hedge and real estate funds are based on the investments' net asset value ("NAV") per share (or its equivalent) provided by the fund manager. The Company invests in government bonds, short-term money market investments, equity securities and alternative investments that are in accordance with the Company's investment policy. Alternative investments include the Company's ownership interest in limited partnerships and hedge, private equity and real estate investment funds.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Inventories

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

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Assets limited as to use

Assets limited as to use represent investments and temporary cash deposits set aside for multiple purposes:

- Funds by trustee under trust indentures
- To self-insure against malpractice and other general liability claims
- For future renovation, replacement, and expansion of the facilities
- To replenish operating funds as needed

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

Intangible assets

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

Capital assets

Property, plant, and equipment are recorded on the basis of cost. Depreciation is computed by applying the straight-line method over the estimated remaining useful lives of buildings and improvements (10 to 40 years) and equipment (4 to 20 years). Assets under capital leases are amortized using the straight-line method over the shorter of the estimated useful life of the assets or life of the lease term, excluding any lease renewal, unless the lease renewals are reasonably assured. Amortization expense related to assets under capital leases is included in depreciation expense. The Company's capitalization threshold is \$1 and a minimum useful life of 2 years.

Deferred outflows/inflows of resources

In addition to assets, the statements of net position report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as outflow of resources (expense) until then. In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. 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 Company's deferred inflows and outflows are related to pensions, excess consideration provided for acquisitions and deferred charges on bond refundings.

Compensated absences

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

Defined benefit pension plans

For purposes of measuring the 2019 and 2018 net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Company's defined benefit pension plans and additions to/deductions from the Company's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Bond original issue discounts or premiums

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

Patient accounts receivable

Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third-party payor programs. The bad debt allowance is estimated based upon the age of the account, prior experience and any unusual circumstances which affect the collectability. The Company does not require collateral or other security for patient accounts receivable and routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity care and community benefit

As a community provider, the Company's policy is to accept all patients regardless of their ability to pay. Management believes that substantially all the uncollected amounts are due to patients' inability to pay. Therefore, all amounts which are not collected, other than third-party payor contractual adjustments, are recorded as charity care and excluded from net patient service revenues. In April 2015, the Company implemented a presumptive charity program, which is designed to provide financial assistance for non-elective services to individuals who meet approved eligibility criteria that have not applied through the traditional Patient Financial Assistance Program. Evaluation for presumptive charity begins at 90 days from initial patient billing, and determinations are made based upon obtainable credit history and estimated household income. As a result of this program, deductions to revenue that were considered bad debts in prior years are now considered to be charity care. The community benefit provided through charity care, including provisions for bad debts, was \$107,161 and \$91,575, based on gross charges, for the years ended June 30, 2019 and 2018, respectively. The estimated costs of providing charity services are based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Company's total expenses divided by gross patient service revenue. The estimated cost of providing such services amounted to approximately \$28,668 and \$29,147 for 2019 and 2018, respectively.

EHR incentive payments

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

Net patient service revenues

Net patient service revenues are reported at the net amounts billed to patients, third-party payors and others for services rendered, including an estimated provision for bad debts and estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes in estimated provisions and final settlements are determined. Changes in estimated provisions and final settlements are included in net patient service revenues. Changes in estimated settlements resulted in an increase in net patient service revenues of \$3,191 and \$3,458 for the years ended June 30, 2019 and 2018, respectively.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

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

Medicare

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

TennCare

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

Other

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

Charges at the Company's established billing rates (gross patient service charges) related to patients covered by Medicare, Medicaid, and TennCare programs were 69% and 67% of gross patient service revenues for the fiscal years ended June 30, 2019 and 2018, respectively.

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

	<u>2019</u>	<u>2018</u>
Medicare	\$ 1,399,769	\$ 919,132
TennCare	488,477	292,637
Other	676,165	463,842
Bad debts	<u>68,462</u>	<u>52,027</u>
	<u>\$ 2,632,873</u>	<u>\$ 1,727,638</u>

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

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Essential access, critical access, Federal Medical Assistance Percentage and Medicaid Disproportionate Share payments of approximately \$6,781 and \$6,207 received from TennCare/Medicaid were included in net patient service revenues during the years ended June 30, 2019 and 2018, respectively.

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

Operating revenues and expenses

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

Federal income taxes

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

Recent accounting pronouncements

GASB Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. A fiduciary component unit, when reported in the fiduciary fund financial statements of a primary government, should combine its information with its component units that are fiduciary component units and aggregate that combined information with the primary government's fiduciary funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (the Company's fiscal year 2020).

GASB Statement No. 87, *Leases*, has the objective to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (the Company's fiscal year 2021).

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019 (the Company's fiscal year 2021).

GASB Statement No. 90, *Majority Equity Interests – an Amendment of GASB Statements No. 14 and No.61*, has the primary objective of improving the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018 (the Company's fiscal year 2020).

GASB Statement No. 91, *Conduit Debt Obligations*, has the primary objective of providing a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020 (the Company's fiscal year 2022).

Management is evaluating the impact that the adoption of these standards will have on the financial statements.

2. Business Combination

On May 31, 2018, the Company acquired substantially all of the assets of Community Health Systems in West Tennessee, operating locally under the brand Tennova Healthcare (hereafter referred to as "Tennova West"). The acquired operations included three hospitals, 19 clinics, and an EMS operation. The acquired hospitals were located in Dyersburg, Martin, and Jackson, Tennessee. The acquisition will enhance the Company's ability to fulfill its mission in a sustainable business model, with the goal of improving quality and access to care for west Tennesseans. The acquisition is consistent with the Company's strategic vision of becoming a more complete health system. On June 1, 2018, the Company began operation of the acquired services, maintaining the same level of service in each location with the exception of the hospital located in Jackson, which became a satellite of the Company's flagship hospital, Jackson-Madison County General Hospital. The satellite campus is located just 4.7 miles from the flagship hospital. The purchase included fixed assets and limited working capital. The total

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

purchase price was \$73,211, adjusted for working capital settlements at closing. The Company obtained \$90,000 in interim financing to fund the transaction and support working capital during provider enrollment. The Company obtained permanent financing during fiscal year 2019, with Series 2018A and Series 2018B bond issues. Acquisition related expenses incurred in fiscal year 2018 were \$5,827.

The Company recorded the acquisition in accordance with GASB Statement No. 69, Government Combinations and Disposals of Operations. Under Statement No. 69, all assets, deferred outflows, liabilities and deferred inflows are recognized at acquisition value.

The following summarizes the fair value of the assets acquired and liabilities assumed of the three hospitals as of the acquisition date:

Assets acquired:	
Current assets	\$ 6,733
Fixed assets	65,303
Identifiable intangible assets	339
Other assets	<u>2,622</u>
Total assets	<u>74,997</u>
Liabilities assumed:	
Current liabilities assumed	<u>1,786</u>
Net position acquired	<u>\$ 73,211</u>

3. New Accounting Standards

Effective July 1, 2018, the Company adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (“AROs”). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The adoption of this standard had no effect on the Company’s statements of net position or statements of revenues and expenses and changes in net position.

Effective July 1, 2018, the Company adopted the provisions of GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which modifies the disclosure requirements in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The adoption of this standard had no effect on the Company's statements of net position or statements of revenues and expenses and changes in net position. The adoption required the Company to disclose additional information related to events of default and acceleration clauses related to the Series 2018 and Series 2015 bonds.

4. Assets Limited as to Use

The Company, as authorized by the Board of Trustees, maintains checking accounts necessary for daily operations and deposits and investments for debt service reserve funds, the contingency fund, and other internally designated funds.

Debt service reserve funds

The bond funds are maintained in accordance with the bond indentures related to the Series 2008 \$318,980 Hospital Revenue Refunding and Improvement Bonds and the Series 2015 \$205,965 Hospital Revenue Refunding Bonds (see Note 9). The interest fund and bond sinking fund are maintained for the payment of bond principal and interest. A debt service reserve fund was created under the existing indenture in connection with the issuance of the Series 2008 Bonds and this fund was eliminated in 2018 subsequent to the Series 2018A bond issue that refunded all outstanding Series 2008 bonds. The debt service reserve fund was maintained to make up any deficiencies in the interest fund and bond sinking fund. No debt service reserve fund was required in connection with the Series 2015, Series 2018A or Series 2018B bonds. Certain amounts comprising the interest fund, bond sinking fund and debt service reserve fund are included in the current portion of assets limited as to use in the accompanying statements of net position based on debt service requirements during the following fiscal year. The Company first applies restricted resources when expenses are incurred for purposes for which both restricted and unrestricted assets are available.

Board designated contingency fund and other internally designated

The Company established a board designated contingency fund for losses on self-insured professional liability claims. The Company also reserves funds for future purchases of capital assets and other internal purposes, and these funds are included in other internally designated assets limited as to use.

5. Cash and Investments

At June 30, 2019 and 2018, the Company had cash and deposits as follows:

	<u>2019</u>	<u>2018</u>
Cash on hand	\$ 19	\$ 13
Cash insured (FDIC) or collateralized with securities held by the Company	1,425	906
Cash collateralized by securities held by the pledging financial institution's trust department in the Company's name or in the State of Tennessee Collateral Pool	<u>22,822</u>	<u>12,929</u>
Total	<u>\$ 24,266</u>	<u>\$ 13,848</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Assets limited as to use consist of the following investments which are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB statements require or permit on the statements of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Prices for investment securities such as common stocks and mutual funds are readily available in the active markets in which those securities are traded, and the resulting fair values are categorized as Level 1.

Prices for preferred stock, corporate bonds, U.S. government and agency fixed income securities, collateralized debt obligations and mortgage-backed securities are determined on a recurring basis based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets and are categorized as Level 2.

There is limited or no observable data for the price of the private limited partnership fund, and the resulting fair value is categorized as Level 3. The fair value of this investment was estimated based primarily on the value of the underlying investments held by the fund and other information provided by the fund manager.

Investments' fair value measurements are as follows at June 30, 2019 and 2018:

	2019	Fair Value Measurements Using		
	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Mutual funds:				
Money market	\$ 7,682	\$ 7,682	\$ -	\$ -
Fixed income	20,610	20,610	-	-
Balanced	<u>8,830</u>	<u>8,830</u>	-	-
	37,122	37,122	-	-
Common stock	582	582	-	-
Limited partnership fund of funds	<u>1,685</u>	<u>-</u>	<u>-</u>	<u>1,685</u>
Total investments in the fair value hierarchy	39,389	<u>\$ 37,704</u>	<u>\$ -</u>	<u>\$ 1,685</u>
Investments measured at NAV	<u>327,225</u>			
Total investments	<u>\$ 366,614</u>			

	2018	Fair Value Measurements Using		
	<u>Fair Value</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
Mutual funds:				
Money market	\$ 10,816	\$ 10,816	\$ -	\$ -
Balanced	17,418	17,418	-	-
Fixed income	<u>25,074</u>	<u>25,074</u>	-	-
	53,308	53,308	-	-
Common stock	538	538	-	-
Limited partnership fund of funds	<u>2,110</u>	<u>-</u>	<u>-</u>	<u>2,110</u>
Total investments in the fair value hierarchy	55,956	<u>\$ 53,846</u>	<u>\$ -</u>	<u>\$ 2,110</u>
Investments measured at NAV	<u>311,967</u>			
Total investments	<u>\$ 367,923</u>			

The fair values of investments in certain private equity and hedge funds are based on the investments' NAV per share (or its equivalent) provided by the fund manager. Investments valued at NAV are as follows at June 30, 2019 and 2018:

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

	<u>2019</u> <u>Fair Value</u>	<u>2018</u> <u>Fair Value</u>	<u>Unfunded</u> <u>Commitments</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
Limited partnerships and hedge funds					
Equity fund ^(a)	\$ 136,034 *	\$ 127,311*	None	Daily	None
Core fixed income ^(b)	75,301 *	78,801*	None	Daily	None
Public inflation hedge ^(c)	28,536 *	30,248*	None	Daily	None
Real estate limited partnership ^(d)	36,959 *	34,751*	None	Quarterly	60 days
Direct hedged equity fund ^(e)	32,757 *	29,032*	None	Monthly	100 days
Private equity fund – global ^(f)	13,174	11,824	None	Quarterly	30 days
Private equity funds ^(g)	<u>4,464</u>	<u>-</u>	\$1,451	(g)	N/A
	<u>\$ 327,225</u>	<u>\$ 311,967</u>			

*Denotes an investment that is more than 5% of total investments.

- (a) This common and collective trust fund is primarily invested in common stocks and exchange traded mutual funds in the United States and globally. The fair value of this investment has been estimated using the net asset value as provided by the hedge fund manager.
- (b) This common and collective trust fund is primarily invested in a broad range of fixed income securities, including commercial mortgage - backed securities, U.S. and global corporate bonds, and U.S. government securities.
- (c) This common and collective trust fund's objective is to provide a partial hedge against inflation through a basket of inflation-sensitive assets. The fund holds investments in common stocks, exchange traded mutual funds and a broad range of fixed income securities in the U.S. and globally. Additionally, the fund is invested in derivatives and interest rate swaps.
- (d) This real estate mortgage fund actively manages a core portfolio consisting primarily of participating mortgage loans and equity real estate investments located in the United States.
- (e) This common and collective trust fund invests in a number of alternative strategies through the use of separate accounts and limited partnerships. The objective is to provide a long-term total return with reduced volatility and reduced correlation to conventional stock and bond markets by utilizing a broad array of trading and investment strategies.
- (f) This semi-liquid investment fund provides diversified private markets exposure in a registered investment company vehicle. 70% of the portfolio will be allocated to private equity, 20% to private debt, and the remaining 10% in liquid investments for cash management purposes.
- (g) This investment is an illiquid investment that provides dedicated exposure to private equity investments. Investments in this fund cannot be redeemed. Rather, investments will be made for the first 5 years of the fund, and redemptions will be made as the underlying assets of the fund are liquidated. Final redemption could exceed 10 years. Because it is not probable that any of the investment will be sold prior to redemption, the fair value of the investment has been determined using the NAV per share of the Company's ownership interest.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the Company has assessed the custodial credit risk, the concentration of credit risk, credit risk, and interest rate risk of its cash and investments.

Custodial credit risk

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

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

At June 30, 2019 and 2018, the Company's bank balances were not exposed to custodial credit risk since the full amount was covered by FDIC insurance or collateralized by securities held by the pledging financial institution's trust department in the Company's name or by the State of Tennessee Collateral Pool.

As of June 30, 2019 and 2018, the Company's investments in assets limited as to use were registered in the Company's name; therefore, they are not exposed to custodial credit risk. In addition, the Company's investment policy requires that specific qualifications be met in order to represent the Company as a custodian.

Concentration of credit risk

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

Credit risk

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

The credit risk profile of the Company's investments as of June 30, 2019, is as follows:

	Balance June 30, 2019	Rating			
		AAA	AA+/AA/AA-	A+ / A / A-	NA
Money market mutual funds	\$ 7,682	\$ 7,682	\$ -	\$ -	\$ -
Real estate limited partnership at NAV	36,959	-	-	-	36,959
Fixed income mutual fund	20,610	6,072	1,237	7,007	6,294
Balanced mutual fund	8,830	-	-	-	8,830
Common stock	582	-	-	-	582
Limited partnerships	1,685	-	-	-	1,685
Common and collective trust funds	272,628	62,414	5,477	6,647	198,090
Private equity funds	<u>17,638</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,638</u>
Total investments	366,614	76,168	6,714	13,654	270,078
Amounts required to meet current obligations	<u>(6,195)</u>	<u>(6,195)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 360,419</u>	<u>\$ 69,973</u>	<u>\$ 6,714</u>	<u>\$ 13,654</u>	<u>\$ 270,078</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Interest rate risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Company's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the Company's investment horizon and within the Company's risk tolerance and cash requirements.

The distribution of the Company's investments by maturity as of June 30, 2019, is as follows:

	Balance June 30, 2019	Maturity				
		12 Months or Less	12 to 24 Months	24 to 60 Months	More than 60 Months	NA
Money market mutual funds	\$ 7,682	\$ 7,682	\$ -	\$ -	\$ -	\$ -
Real estate limited partnership at NAV	36,959	-	-	-	-	36,959
Fixed income mutual fund	20,610	17,397	3,213	-	-	-
Balanced mutual fund	8,830	-	-	-	-	8,830
Common stock	582	-	-	-	-	582
Limited partnerships	1,685	-	-	-	-	1,685
Common and collective trust funds	272,628	-	-	-	89,570	183,058
Private equity hedge fund	<u>17,638</u>	-	-	-	-	<u>17,638</u>
Total investments	366,614	25,079	3,213	-	89,570	248,752
Amounts required to meet current obligations	<u>(6,195)</u>	<u>(6,195)</u>	-	-	-	-
	<u>\$ 360,419</u>	<u>\$ 18,884</u>	<u>\$ 3,213</u>	<u>\$ -</u>	<u>\$ 89,570</u>	<u>\$ 248,752</u>

For the years ended June 30, 2019 and 2018, investment income is comprised of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 719	\$ 1,653
Net increase in fair value of investments	<u>18,712</u>	<u>19,048</u>
	<u>\$ 19,431</u>	<u>\$ 20,701</u>

6. Wellness Center Loan Receivable

During fiscal year 2012, Jackson-Madison County General Hospital executed a promissory note with the WF Healthy Community Investment Fund, LLC in the amount of \$16,872 for development of the Wellness Center, known as the LIFT at the Jackson Walk development in downtown Jackson. This note bore an interest rate of 4.25% until maturity and was payable quarterly. In October 2018, the Company purchased the LIFT Wellness Center. The Wellness Center was purchased for \$19,172, which consisted of \$2,300 in cash in addition to the \$16,872 million that was provided in 2012.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

7. Disaggregation of Payable Balances

Accounts payable at June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Due to vendors	\$ 23,416	\$ 28,275
Due to patients and third-party payers	3,120	2,464
Other	<u>73</u>	<u>651</u>
Total accounts payable	<u>\$ 26,609</u>	<u>\$ 31,390</u>

Other accrued expenses at June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Self-insured professional liability	\$ 4,242	\$ 4,037
Self-insured employee health claims liability	4,503	3,861
Other	<u>1,034</u>	<u>499</u>
Total other accrued expenses	<u>\$ 9,779</u>	<u>\$ 8,397</u>

8. Capital Assets

Capital assets activity for the years ended June 30, 2019 and 2018, consisted of the following:

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2019</u>
Land	\$ 40,609	\$ 149	\$	\$ (66)	\$ 40,692
Land improvements	16,198	8	227	(5)	16,428
Building	360,813	19,147	4,844	(630)	384,174
Equipment	<u>746,256</u>	<u>18,874</u>	<u>5,489</u>	<u>(1,601)</u>	<u>769,018</u>
	1,163,876	38,178	10,560	(2,302)	1,210,312
CIP	<u>9,617</u>	<u>18,867</u>	<u>(10,560)</u>	<u>-</u>	<u>17,924</u>
Total capital assets	1,173,493	57,045	-	(2,302)	1,228,236
Accumulated depreciation	<u>(745,270)</u>	<u>(52,287)</u>	<u>-</u>	<u>1,753</u>	<u>(795,804)</u>
Net capital assets	<u>\$ 428,223</u>	<u>\$ 4,758</u>	<u>\$ -</u>	<u>\$ (549)</u>	<u>\$ 432,432</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Land	\$ 35,220	\$ 5,389	\$ -	\$ -	\$ 40,609
Land improvements	15,950	95	156	(3)	16,198
Building	311,493	47,524	1,916	(120)	360,813
Equipment	<u>686,879</u>	<u>36,752</u>	<u>26,710</u>	<u>(4,085)</u>	<u>746,256</u>
	1,049,542	89,760	28,782	(4,208)	1,163,876
CIP	<u>22,260</u>	<u>16,137</u>	<u>(28,782)</u>	<u>2</u>	<u>9,617</u>
Total capital assets	1,071,802	105,897	-	(4,206)	1,173,493
Accumulated depreciation	<u>(700,756)</u>	<u>(48,220)</u>	<u>-</u>	<u>3,706</u>	<u>(745,270)</u>
Net capital assets	<u>\$ 371,046</u>	<u>\$ 57,677</u>	<u>\$ -</u>	<u>\$ (500)</u>	<u>\$ 428,223</u>

Depreciation expense totaled \$52,287 and \$48,220, during the years ended June 30, 2019 and 2018, respectively.

Construction in progress at June 30, 2019, consists of various projects for additions and renovations to the Company's facilities. The Company has outstanding contracts and other commitments related to the completion of these projects. The Company estimates approximately \$5,675 in costs to complete these projects.

9. Long-Term Debt, Capital Lease Obligations and Bridge Loan

Long-term debt consists of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Hospital Revenue Bonds, Series 2008	\$ -	\$ 73,425
Less unamortized bond discount	-	(872)
Hospital Revenue Bonds, Series 2015	187,635	192,305
Plus unamortized bond premium	13,932	15,134
Hospital Revenue Bonds, Series 2018A	60,980	-
Plus unamortized bond premium	4,948	-
Hospital Revenue Bonds, Series 2018B	90,480	-
Capital leases payable	10,039	-
	<u>368,014</u>	<u>279,992</u>
Amount due within one year, Series 2008	-	(1,685)
Amount due within one year, Series 2015	(4,900)	(4,670)
Amount due within one year, Series 2018A	(1,585)	-
Amount due within one year, Series 2018B	(1,520)	-
Amount due within one year, Capital leases	(2,085)	-
	<u>(10,090)</u>	<u>(6,355)</u>
Total long-term debt less amounts due within one year	<u>\$ 357,924</u>	<u>\$ 273,637</u>

In November 2018, the Company issued \$62,870 of Series 2018A Hospital Revenue Refunding Bonds and \$91,025 of Series 2018B Taxable Hospital Revenue Bonds. The proceeds of the Series 2018A Bonds, together with other funds, were used by the Company to refund all outstanding Bonds from the Series 2008 Bond issue. The proceeds of the Series 2018B Bonds were used to reimburse the Company for the \$90,000 bridge loan financing that was obtained for the Tennova West acquisition. The difference between the reacquisition price

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

(\$159,060) and the net carrying value of the old debt (\$159,907) resulted in a loss of \$847, which was recorded as deferred outflows of resources in the accompanying statements of net position and is being amortized over the remaining life of the Series 2008 Bonds (through 2041).

In April 2015, the District issued \$205,965 of Series 2015 Hospital Revenue Refunding Bonds. The proceeds of the Series 2015 Bonds, together with other funds, were used by the District to advance refund \$210,895 of the outstanding Series 2008 Hospital Revenue Refunding and Improvement Bonds. The difference between the reacquisition price (\$241,465) and the net carrying value of the old debt (\$207,897) resulted in a loss of \$33,568, which was recorded as deferred outflows of resources in the accompanying statements of net position and is being amortized over the remaining life of the Series 2008 Bonds (through 2041).

In August 2008, the District issued \$318,980 of Series 2008 Hospital Revenue Refunding and Improvement Bonds. With the 2008 fixed rate bond issue, the District has eliminated all auction rate and variable rate debt. A portion of the proceeds was used to refund \$78,350 of its Series 2003 Auction Rate Hospital Revenue Bonds; \$48,725 of its Series 2006A Auction Rate Hospital Revenue Bonds; and \$143,600 of its Series 2006B Variable Demand Rate Hospital Revenue Refunding and Improvement Bonds. A Debt Service Reserve Fund was created under the 2008 indenture. On the date of issuance of the 2008 bonds, \$21,300 of the proceeds of the 2008 bonds were deposited in the Debt Service Reserve Fund.

The District's revenues are pledged as collateral to the Series 2018 and Series 2015 Bonds. Interest rates range from 3.25% to 5.31% on the Series 2018 Bonds and 2.0% to 5.25% on the Series 2015 Bonds. The District's Series 2018 and Series 2015 Bonds contain covenant and default provisions as defined in the agreements, including the requirement to maintain rates such that net revenue available for debt service in a given fiscal year be greater than 110% of the principal and interest payment requirements for all debt for such fiscal year. In the event that the District violates this covenant by not maintaining such ratio, the District has the ability to cure the violation as defined in the agreement. The inability to cure the violation would result in a default. In each and every case of default, unless cured by the District within 30 days after written notice, the outstanding amounts can become due immediately upon approval of the bondholders.

In May 2018, the Company obtained a \$90,000 bridge loan in order to finance the acquisition of Tennova West. The note bore interest at a rate of three-month LIBOR plus .65%, with interest due quarterly beginning June 30, 2018. The loan was collateralized by revenues of the District. On October 1, 2018, the Company repaid all borrowings and interest on the bridge loan.

Capital lease obligations

The Company entered into capital lease agreements, whereby it is leasing certain equipment through 2029. At June 30, 2019, the carrying value of equipment held under these leases totaled \$10,435 (no depreciation has been recorded as the equipment has not been placed in service as of June 30, 2019).

Minimum future lease payments under the capital leases at June 30, 2019, are as follows:

2020	\$	2,444
2021		2,244
2022		2,244
2023		2,244
2023		1,521
Thereafter		<u>368</u>
		11,065
Less: Amount representing interest		<u>(1,026)</u>
Present value of net minimum lease payments		10,039
Less: Current maturities		<u>(2,085)</u>
Long-term maturities of capital lease	\$	<u>7,954</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Long-term debt and bridge loan activity (excluding unamortized bond premium or discount) for the years ended June 30, 2019 and 2018, consisted of the following:

	<u>June 30,</u> <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2019</u>
Bonds payable	\$ 271,825	\$ -	\$ 6,095	\$ 265,730	\$ 153,895	\$ 80,530	\$ 339,095
Bridge loan	-	90,000	-	90,000	-	90,000	-
Capital leases	-	-	-	-	10,435	396	10,039
Total	<u>\$ 271,825</u>	<u>\$ 90,000</u>	<u>\$ 6,095</u>	<u>\$ 355,730</u>	<u>\$ 164,330</u>	<u>\$ 170,926</u>	<u>\$ 349,134</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u> <u>Service</u>
Fiscal years ending June 30:			
2020	\$ 10,090	\$ 16,787	\$ 26,877
2021	10,347	16,329	26,676
2022	10,832	15,847	26,679
2023	11,340	15,340	26,680
2024	11,140	14,810	25,950
2025-2029	56,206	66,331	122,537
2030-2034	71,200	50,951	122,151
2035-2039	90,740	31,408	122,148
2040-2044	55,744	11,426	67,170
2045-2048	21,495	2,927	24,422
	<u>349,134</u>	<u>242,156</u>	<u>591,290</u>
Unamortized bond premium, net	<u>18,880</u>	<u>-</u>	<u>18,880</u>
Total	<u>\$ 368,014</u>	<u>\$ 242,156</u>	<u>\$ 610,170</u>

10. Leases

The Company leases equipment under various operating leases. Rent expense for all operating leases and office space was approximately \$9,216 and \$6,181 for the years ended June 30, 2019 and 2018, respectively. Approximate minimum future rental payments, by year and in the aggregate, under noncancellable operating leases with initial terms of one year or more are as follows at June 30, 2019:

2020	\$ 4,855
2021	3,619
2022	3,339
2023	3,068
2024	1,999
2025-2029	6,816
2030-2034	918
2035	<u>70</u>
	<u>\$ 24,684</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

11. Retirement Plans

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

The Company's net pension liability as of June 30, 2019 and 2018, consists of the following:

	<u>2019</u>	<u>2018</u>
Defined benefit pension plan	\$ 116,371	\$ 113,704
Supplemental 415(m) plan	<u>1,092</u>	<u>1,032</u>
	<u>\$ 117,463</u>	<u>\$ 114,736</u>

Defined benefit pension plan

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

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

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

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

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

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

At January 1, 2018 and January 1, 2017, the census dates used to measure the 2019 and 2018 total pension liability, respectively, the following employees (stated in actual numbers, not thousands) were covered by the benefit terms of the Plan:

	<u>2019</u>	<u>2018</u>
Inactive employees or beneficiaries currently receiving benefits	2,407	1,104
Inactive employees or beneficiaries entitled to but not yet receiving benefits	683	752
Active employees	<u>1,133</u>	<u>2,564</u>
Total	<u><u>4,223</u></u>	<u><u>4,420</u></u>

Contributions

The Company has no legal or Plan requirements to fund the Plan. The Company's funding policy is to make contributions based on an amount recommended by an independent actuary calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. The actuarially determined contribution is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The additional amount to finance the unfunded liability has been estimated with the goal of fully funding the plan over a closed 30-year period beginning in 2017. In addition, annual gains and losses have been spread over a 10-year period in order to reduce the effects of market volatility and provide stability to the suggested contributions. For the years ended June 30, 2019 and 2018, the Company's average contribution rate was 9.3% and 8.3%, respectively, of annual payroll.

Net pension liability

The Company's net pension liability at June 30, 2019, was measured as of June 30, 2018, and the total pension liability used to calculate the 2019 net pension liability was determined by an actuarial valuation as of that date. The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions:

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

Mortality rates were based on the RP-2014 Mortality Table for males and females with adjustments for generational projections based on Scale BB, using the Entry Age Normal Cost method. The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2017, to June 30, 2018.

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

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic & international equity securities	55%	7.1 - 7.8%
Private equity	10%	8.3 - 8.7%
Hedged equity	10%	5.7 - 5.9%
Real estate and other	15%	5.9 - 6.0%
Fixed income	10%	3.1 - 4.0%
	100%	

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

Changes in the net pension liability

The net pension liability and annual pension expense for fiscal year 2019 are based on a measurement date of June 30, 2018, and a measurement period of July 1, 2017 to June 30, 2018.

	Total Pension Liability (b)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance, June 30, 2018	\$ 342,314	\$ 228,610	\$ 113,704
Service cost	6,749	-	6,749
Interest	22,220	-	22,220
Difference between expected and actual experience	2,376	-	2,376
Contributions – employer	-	12,300	(12,300)
Net investment income	-	16,378	(16,378)
Benefit payments	(14,657)	(14,657)	-
Administrative expense	-	-	-
Net changes	16,688	14,021	2,667
Balance, June 30, 2019	\$ 359,002	\$ 242,631	\$ 116,371

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

The net pension liability and annual pension expense for fiscal year 2017 are based on a measurement date of June 30, 2016, and a measurement period of July 1, 2015, to June 30, 2016.

	Total Pension Liability (b)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance, June 30, 2017	\$ 328,156	\$ 204,901	\$ 123,255
Service cost	6,815	-	6,815
Interest	21,309	-	21,309
Difference between expected and actual experience	535	-	535
Contributions – employer	-	18,000	(18,000)
Net investment income	-	20,210	(20,210)
Benefit payments	(14,501)	(14,501)	-
Administrative expense	-	-	-
Net changes	<u>14,158</u>	<u>23,709</u>	<u>(9,551)</u>
Balance, June 30, 2018	<u>\$ 342,314</u>	<u>\$ 228,610</u>	<u>\$ 113,704</u>

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

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net pension liability	\$ 163,375	\$ 116,371	\$ 77,117

For the years ended June 30, 2019 and 2018, the Company recognized pension expense of \$17,259 and \$17,659, respectively.

At June 30, 2019, and 2018, the Company reported pension deferred outflows of resources as noted below:

	2019	2018
Difference between expected and actual experience	\$ 5,323	\$ 4,239
Net difference between projected and actual earnings on Plan investments	4,207	7,583
Pension contributions subsequent to the measurement date	<u>13,470</u>	<u>12,370</u>
	<u>\$ 23,000</u>	<u>\$ 24,192</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

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

Fiscal Year Ending June 30		
2020	\$	5,589
2021		3,196
2022		(359)
2023		851
2024		254

Supplemental 415(m) retirement plan

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

The 415 Plan net pension liability of \$1,092 and annual pension expense of \$130 for fiscal year 2019 are based on a measurement date of June 30, 2018, and a measurement period of July 1, 2017 to June 30, 2018, as determined by an actuarial valuation as of that date. The total pension liability in the June 30, 2019, actuarial valuation was determined using a discount rate of 4%. The projection of cash flows used to determine the discount rate assumed that the Company contributions will be made at actuarially determined amounts.

The 415 Plan net pension liability of \$1,032 and annual pension expense of \$46 for fiscal year 2018 are based on a measurement date of June 30, 2017, and a measurement period of July 1, 2016 to June 30, 2017, as determined by an actuarial valuation as of that date. The total pension liability in the June 30, 2018, actuarial valuation was determined using a discount rate of 4%. The projection of cash flows used to determine the discount rate assumed that the Company contributions will be made at actuarially determined amounts.

Other post-employment benefits ("OPEB")

The West Tennessee Healthcare Postretirement Medical Plan (the "OPEB") is a single-employer plan administered by the Company, and provides postretirement health insurance benefits to certain retired employees and their beneficiaries. Effective July 1, 2017, the Company accounts for its OPEB plan in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. During 2016, the OPEB plan was amended to not allow participation for employees retiring after December 31, 2017.

Based on the June 30, 2019, actuarial valuation, the Company's OPEB plan was overfunded by \$2,368 (the "net OPEB asset"). In February 2018, the Company distributed approximately \$2,500 of excess plan assets to plan participants. Since the Company's OPEB plan was terminated to new participants on December 31, 2017, and the Company distributed \$2,500 of excess plan assets to participants, and the remainder of plan assets will be drawn down as expenses are incurred by the plan's existing beneficiaries, which are few, the Company's 2019 financial statements do not reflect the net OPEB asset or the related deferred inflows of resources or OPEB income of \$1,451 that are described in the following paragraphs as such amounts are immaterial. The plan does not issue a publicly available financial report.

Based on the June 30, 2018 actuarial valuation, the Company's OPEB plan was overfunded by \$3,576. As described above, the Company's 2018 financial statements do not reflect the net OPEB asset or the related deferred inflows of resources or OPEB income of \$450.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Description of OPEB plan

90% of future eligible retirees are assumed to elect medical coverage in the OPEB plan. 100% of current retirees are assumed to continue medical coverage until Medicare eligibility, or until death if grandfathered. Employees that are eligible to participate in the OPEB plan are employees that were either full-time or part-time, enrolled in healthcare benefits, and retired prior to January 1, 2018, after meeting the following criteria:

- Age 60 and 30 years of service
- Age 62 and 15 years of service

Retiree coverage ends at age 65 (Medicare eligibility). Spouse coverage ends at the earlier of the spouse's age 65 or 18 months after the retiree reaches age 65. There is a closed group of grandfathered retirees that are eligible to continue coverage through their lifetime beyond age 65.

Retirees have the choice between two plan options for medical coverage: a medical deductible plan or a medical copayment plan. The retiree monthly contributions (in dollars) as of January 1, 2018, the actuarial valuation date and date of collection of census data, are summarized in the following table:

	<u>Medical Deductible Plan</u>	<u>Medical Copayment Plan</u>
Individual	\$ 627	\$ 678
Individual + 1	\$ 1,235	\$ 1,335
Family	\$ 1,724	\$ 1,863

Certain grandfathered retirees have no contribution requirement, and certain grandfathered retirees will not be subject to contribution increases.

At January 1, 2018 and 2017, the following employees were covered by the benefit terms of the OPEB plan:

	<u>2019</u>	<u>2018</u>
Active employees	-	5,379
Retired employees receiving benefits	31	35
Spouses of retired employees receiving benefits	6	8
Total	<u>37</u>	<u>5,422</u>

Contributions

The Company has no legal or plan requirements to fund the OPEB plan. The Company's funding policy is to make contributions based on an amount recommended by an independent actuary calculated as of June 30 one year prior to the end of the fiscal year in which contributions are reported. The actuarially determined contribution is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the years ended June 30, 2019 and 2018, the Company was not required to make a contribution to the OPEB plan.

Net OPEB asset

The Company's net OPEB asset at June 30, 2019, was measured as of June 30, 2018, and the total liability used to calculate the 2019 net OPEB asset was determined by an actuarial valuation as of that date. The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions:

Salary increases	3.5%
Investment rate of return	6.5%

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Mortality rates were based on the RP-2014 Mortality Table for males and females with adjustments for generational projections based on Scale BB, using the Entry Age Normal Cost method.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic & international equity securities	100%	6.9 - 7.3%

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

Changes in the net OPEB asset

The net OPEB asset and annual OPEB income for fiscal year 2019 are based on a measurement date of June 30, 2018, and a measurement period of July 1, 2017 to June 30, 2018.

	<u>Total OPEB Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net OPEB Asset (a) - (b)</u>
Balance, June 30, 2018	\$ 1,540	\$ 5,116	\$ (3,576)
Service cost	16	-	16
Interest	100	-	100
Difference between expected and actual experience	(1,149)	-	(1,149)
Net investment income	-	266	(266)
Benefit payments	(41)	(2,548)	2,507
Net changes	(1,074)	(2,282)	1,208
Balance, June 30, 2019	<u>\$ 466</u>	<u>\$ 2,834</u>	<u>\$ (2,368)</u>

The following presents the total OPEB liability of the Company, calculated using the discount rate of 6.5% and healthcare cost trend rates of 6.6% decreasing to 4.5%, as well as what the Company's total OPEB liability would be if it were calculated using a discount rate and healthcare cost trend rate that is 1% lower or 1% higher than the current rate.

	<u>1% Decrease</u>	<u>Current Rates</u>	<u>1% Increase</u>
Total OPEB liability with changes in discount rate	\$ 479	\$ 466	\$ 454
Total OPEB liability with changes in healthcare cost trend rates	\$ 451	\$ 466	\$ 481

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

At June 30, 2019, the actuarially determined OPEB deferred inflows of resources are as follows:

Difference between expected and actual experience	\$	-
Net difference between projected and actual earnings on OPEB plan investments		<u>135</u>
	<u>\$</u>	<u>135</u>

Amounts reported as deferred inflows of resources related to the OPEB plan are scheduled to be recognized in OPEB income as follows:

Fiscal Year
Ending June 30

2020	\$	(44)
2021		(44)
2022		(44)
2023		(3)

Prior to July 1, 2017, the Company accounted for OPEBs in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Projections of benefits for financial reporting purposes were based on the terms of the plan and the following actuarial assumptions which were determined as part of the January 1, 2015, actuarial valuation. The Company's annual required contribution ("ARC") was calculated using the Projected Unit Credit actuarial cost method.

The unfunded actuarial accrued liability was amortized using a level percentage of pay with a 30-year closed amortization period, of which 21 years remained. The actuarial assumptions included 6.5% post-retirement and 6.5% pre-retirement investment rate of return and a projected salary increase of 3.5% per year.

During fiscal year 2017, the Company funded 100% of the annual OPEB cost (credit). As of June 30, 2017, the net OPEB asset consisted of an actuarially determined credit due from the OPEB plan of \$143. During fiscal year 2018, the OPEB plan refunded the fiscal year 2017 net OPEB asset of \$143.

Defined contribution plan

The Company also maintains a defined contribution plan under Section 403(b) of the IRC which provides for voluntary contributions by employees upon employment and matching contributions by the Company after 90 days of service. Substantially all employees of the Company are eligible and may contribute up to 100% of their compensation, subject to certain IRC limitations. During the fiscal year ended June 30, 2012, upon January 1 or July 1 after the completion of 90 days of credited service, for every 1% the employee invested up to 6%, the Company matched 25% of the employee's contribution. Beginning on January 1, 2013, upon January 1 or July 1 after the completion of 90 days of credited service, for every 1% the employee invested up to 6%, the Company matched 50% of the employee's contribution. The Company recognized expense related to the 403(b) Plan of \$6,023 and \$4,482 in 2019 and 2018, respectively. There is no separate audited financial report available for the defined contribution plan, the 415 Plan or the OPEB plan.

12. Commitments and Contingencies

The Company is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Professional liability

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

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

The Company's accrual for self-insured professional liability risks was \$4,242 and \$4,037 at June 30, 2019 and 2018, respectively, and was based on asserted claims for occurrences prior to that date.

Workers' compensation

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

Self-insured health insurance

The Company is self-insured with respect to employee health insurance. Estimates of health insurance claims incurred but unpaid as of June 30, 2019 and 2018, are accrued based on estimates that incorporate the Company's past experience, as well as other considerations including the nature of claims and relevant trends. The Company accrued a liability for incurred but unpaid claims of approximately \$4,503 and \$3,861 as of June 30, 2019 and 2018, respectively, which is included in other accrued expenses in the accompanying statements of net position. The expenses related to claims paid during the years ended June 30, 2019 and 2018, are \$54,098 and \$45,350, respectively, and are included in salaries and benefits expense.

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

	<u>2019</u>	<u>2018</u>
Claims payable, beginning of year	\$ 3,861	\$ 3,452
Incurred claims expense	54,740	45,759
Claims payments	<u>(54,098)</u>	<u>(45,350)</u>
Claims payable, end of year	<u>\$ 4,503</u>	<u>\$ 3,861</u>

Litigation

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

13. Concentrations

The Company purchased approximately 51% and 52% of medical supplies and drugs from two vendors for the years ended June 30, 2019 and 2018, respectively.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

14. Investment in Joint Venture

Through June 30, 2017, the Company owned and operated a 48-bed inpatient rehabilitation unit located at Jackson-Madison County General Hospital, and HealthSouth Corporation owned and operated a 40-bed inpatient rehabilitation hospital known as HealthSouth Cane Creek Rehab Hospital, located in Martin, Tennessee. The Company and HealthSouth entered into a joint venture agreement for the (a) construction, development and operation of a new 48-bed inpatient rehabilitation hospital in Jackson, Tennessee, and (b) the continued operation of the Cane Creek Rehab Hospital in its current location. The parties formed a limited liability company with both parties receiving a 50% ownership. During the year ended June 30, 2017, the Company contributed cash to the joint venture for construction and other costs totaling \$13,781. Effective June 30, 2017, the Company discontinued its existing inpatient rehabilitation operations and made a contribution to the joint venture for the estimated value of those operations, resulting in a gain of \$12,988. The Company's investment in the joint venture is accounted for using the equity method and was carried at \$28,252 and \$27,597 as of June 30, 2019, and 2018, respectively. The Company recognized earnings from the joint venture of \$2,730 and \$1,044 during the years ended June 30, 2019 and 2018, respectively. In fiscal 2019, the Company received \$2,075 of distributions from the joint venture. Separately issued financial statements for the joint venture are not available. The carrying value of the Company's investment at June 30, 2019, approximates its share of underlying equity in the net assets of the joint venture, adjusted for the effects of contributed capital and other items in accordance with the terms of the joint venture agreement.

The joint venture's assets and liabilities totaled \$59,486 and \$32,367, respectively, as of June 30, 2019. The joint venture's revenues and net income for the year ended June 30, 2019, were \$47,845 and \$5,461, respectively. The joint venture's assets and liabilities totaled \$57,038 and \$1,860, respectively, as of June 30, 2018. The joint venture's revenues and net income for the year ended June 30, 2018, were \$27,123 and \$2,321, respectively.

15. Obligated Group

As disclosed in Note 9, the Company has revenue bonds outstanding that are payable from the operating revenues of certain affiliates of the District (the "Obligated Group"). Summary financial information for the Obligated Group is as follows:

	<u>June 30</u>	
	<u>2019</u>	<u>2018</u>
Assets:		
Current assets	\$ 220,674	\$ 204,030
Capital assets	416,400	412,193
Other assets	394,519	413,830
	<u>1,031,593</u>	1,030,053
Deferred outflows of resources	<u>57,384</u>	60,406
Total assets and deferred outflows of resources	<u>\$ 1,088,977</u>	<u>\$ 1,090,459</u>
Liabilities:		
Current liabilities	\$ 74,876	\$ 163,108
Long-term debt	357,924	273,637
Net pension liability	117,463	114,736
	<u>550,263</u>	551,481
Net position:		
Unrestricted net position	414,149	414,982
Invested in capital assets, net of related financing	118,370	113,317
Restricted net position	6,195	10,679
	<u>538,714</u>	538,978
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,088,977</u>	<u>\$ 1,090,459</u>

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

	Year Ended June 30	
	2019	2018
Net patient service revenues	\$ 727,095	\$ 631,003
Other revenues	<u>31,578</u>	<u>33,889</u>
Total operating revenues	758,673	664,892
Operating expenses	709,824	597,369
Depreciation	<u>50,122</u>	<u>45,895</u>
Total operating expenses	<u>759,946</u>	<u>643,264</u>
Operating (loss) income	(1,273)	21,628
Net nonoperating revenues	15,411	13,611
Interest expense	<u>(14,402)</u>	<u>(14,814)</u>
Increase in net position	(264)	20,425
Net position, beginning of year	<u>538,978</u>	<u>518,553</u>
Net position, end of year	<u>\$ 538,714</u>	<u>\$ 538,978</u>
Net cash provided by (used in):		
Operating activities	\$ 44,376	\$ 18,095
Noncapital financing activities	(2,099)	(958)
Capital and related financing activities	20,650	(68,100)
Investing activities	<u>(52,501)</u>	<u>36,855</u>
	10,426	(14,108)
Cash and cash equivalents, beginning of year	<u>11,779</u>	<u>25,887</u>
Cash and cash equivalents, end of year	<u>\$ 22,205</u>	<u>\$ 11,779</u>

16. Blended Component Units

Jackson-Madison County General Hospital, Bolivar General Hospital, Camden General Hospital, Milan General Hospital, Volunteer Martin Hospital, Dyersburg Hospital, Pathways Behavioral Health, LIFT Therapy, Health Partners, Therapy & Learning Center and the West Tennessee Medical Group are considered blended component units ("BCUs") of West Tennessee Healthcare, as the governing body is substantively the same as the governing body of West Tennessee Healthcare and has operational responsibility of these component units. Separately issued financial statements are not available for any blended component unit. In the statements that follow, we present condensed combining information for the BCUs. In 2019, the Company transferred certain assets and liabilities, other operating revenues, operating expenses, and interest expense used to support all component unit operations to "System Support", as reflected in the following statements. The revenues and expenses are allocated to component units based on a cost allocation methodology. Prior to 2019, these assets, liabilities, revenues, and expenses were reflected under Jackson-Madison County General Hospital.

As of June 30, 2019 and 2018, there were five and three, respectively, blended component units that had an ending deficit net position, including West Tennessee Medical Group, Therapy & Learning Center, Health Partners, Volunteer Hospital, and Dyersburg Hospital. The contributing factors to each unit's deficit net position vary by service. The units are integral to the overall mission of the health care system and the organization works to balance deficits in operational performance for these business units with surplus performance in other component units. In all cases, the organization strives to improve performance and the overall position of the component units as well as the organization as a whole.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Statement of Net Position
June 30, 2019

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	LIFT Therapy	West Tennessee Medical Group	Health Partners	Therapy & Learning & Center	System Support	Eliminations	Total BCUs
ASSETS														
Current assets:														
Cash and cash equivalents	\$ 21,411	\$ 92	\$ 33	\$ 273	\$ 39	\$ 521	\$ 596	\$ 21	\$ 1,200	\$ 71	\$ 9	\$ -	\$ -	\$ 24,266
Accounts receivable, net	112,522	1,620	1,322	3,402	1,133	10,137	836	2,424	7,103	-	434	-	-	140,933
Other receivables	187,991	61	588	-	508	7	773	-	167	3	882	-	(185,918)	5,062
Inventories	6,613	242	176	331	192	766	243	-	131	-	-	-	-	8,694
Prepaid expenses	11,123	104	99	241	124	451	-	-	74	-	-	-	-	12,216
Assets limited to use - current portion	6,195	-	-	-	-	-	-	-	-	-	-	-	-	6,195
Total current assets	345,855	2,119	2,218	4,247	1,996	11,882	2,448	2,445	8,675	74	1,325	-	(185,918)	197,366
Assets limited as to use	360,419	-	-	-	-	-	-	-	-	-	-	-	-	360,419
Other assets	31,019	-	-	204	-	1,171	-	-	-	-	-	1,706	-	34,100
Capital assets, net	318,740	2,598	2,509	11,164	1,693	27,503	1,273	1,373	5,412	-	1,174	58,993	-	432,432
Total assets	1,056,033	4,717	4,727	15,615	3,689	40,556	3,721	3,818	14,087	74	2,499	60,699	(185,918)	1,024,317
DEFERRED OUTFLOWS OF RESOURCES														
Total assets and deferred outflows of resources	49,377	-	-	-	-	-	-	-	-	-	-	8,007	-	57,384
	<u>\$ 1,105,410</u>	<u>\$ 4,717</u>	<u>\$ 4,727</u>	<u>\$ 15,615</u>	<u>\$ 3,689</u>	<u>\$ 40,556</u>	<u>\$ 3,721</u>	<u>\$ 3,818</u>	<u>\$ 14,087</u>	<u>\$ 74</u>	<u>\$ 2,499</u>	<u>\$ 68,706</u>	<u>\$ (185,918)</u>	<u>\$ 1,081,701</u>
LIABILITIES														
Current liabilities:														
Accounts payable	\$ 20,867	\$ 439	\$ 178	\$ 1,156	\$ 221	\$ 2,832	\$ 233	\$ 19	\$ 649	\$ -	\$ 14	\$ 1	\$ -	\$ 26,609
Accrued compensation and related expenses	26,834	-	-	-	-	-	-	-	1,861	-	-	-	-	28,695
Accrued interest expense	4,118	-	-	-	-	-	-	-	-	-	-	-	-	4,118
Other accrued expenses	21,023	(19,210)	(16,452)	21,314	(7,307)	41,328	(12,559)	(3,881)	85,719	1,186	15,831	68,705	(185,918)	9,779
Estimated third-party settlements	(2,082)	(140)	1,055	-	2,322	-	3,558	-	-	-	-	-	-	4,713
Long-term debt due within one year	10,090	-	-	-	-	-	-	-	-	-	-	-	-	10,090
Bridge loan payable	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	80,850	(18,911)	(15,219)	22,470	(4,764)	44,160	(8,768)	(3,862)	88,229	1,186	15,845	68,706	(185,918)	84,004
Other liabilities:														
Long-term debt, less amounts due within one year	357,924	-	-	-	-	-	-	-	-	-	-	-	-	357,924
Net pension liability	117,463	-	-	-	-	-	-	-	-	-	-	-	-	117,463
Total other liabilities	475,387	-	-	-	-	-	-	-	-	-	-	-	-	475,387
Total liabilities	556,237	(18,911)	(15,219)	22,470	(4,764)	44,160	(8,768)	(3,862)	88,229	1,186	15,845	68,706	(185,918)	559,391
NET POSITION														
Unrestricted	522,268	21,030	17,437	(18,019)	6,760	(31,107)	11,216	6,307	(79,554)	(1,112)	(14,520)	(58,993)	-	381,713
Net investment in capital assets	20,710	2,598	2,509	11,164	1,693	27,503	1,273	1,373	5,412	-	1,174	58,993	-	134,402
Restricted for debt service	6,195	-	-	-	-	-	-	-	-	-	-	-	-	6,195
Total net position	549,173	23,628	19,946	(6,855)	8,453	(3,604)	12,489	7,680	(74,142)	(1,112)	(13,346)	-	-	522,310
Total liabilities and net position	<u>\$ 1,105,410</u>	<u>\$ 4,717</u>	<u>\$ 4,727</u>	<u>\$ 15,615</u>	<u>\$ 3,689</u>	<u>\$ 40,556</u>	<u>\$ 3,721</u>	<u>\$ 3,818</u>	<u>\$ 14,087</u>	<u>\$ 74</u>	<u>\$ 2,499</u>	<u>\$ 68,706</u>	<u>\$ (185,918)</u>	<u>\$ 1,081,701</u>

See accompanying notes.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Statement of Net Position
June 30, 2018

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	LIFT Therapy	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Eliminations	Total BCUs
ASSETS													
Current assets:													
Cash and cash equivalents	\$ 12,186	\$ 51	\$ 36	\$ (80)	\$ 8	\$ (327)	\$ 570	\$ 105	\$ 1,218	\$ 26	\$ 55	\$ -	\$ 13,848
Accounts receivable, net	134,023	1,879	1,294	2,405	1,222	5,812	1,288	1,948	6,456	-	515	-	156,842
Other receivables	65,563	68	157	380	237	803	808	-	429	4	656	(60,851)	8,254
Inventories	8,506	225	192	555	191	2,313	198	-	308	-	-	-	12,488
Prepaid expenses	10,974	-	-	221	-	263	-	-	22	-	-	-	11,480
Assets limited to use - current portion	4,887	-	-	-	-	-	-	-	-	-	-	-	4,887
Total current assets	236,139	2,223	1,679	3,481	1,658	8,864	2,864	2,053	8,433	30	1,226	(60,851)	207,799
Assets limited as to use	363,036	-	-	-	-	-	-	-	-	-	-	-	363,036
Other assets	49,188	-	-	225	-	1,391	-	-	-	-	-	-	50,804
Capital assets, net	380,040	2,829	2,594	9,051	1,695	23,102	1,025	1,574	4,989	-	1,324	-	428,223
Total assets	1,028,403	5,052	4,273	12,757	3,353	33,357	3,889	3,627	13,422	30	2,550	(60,851)	1,049,862
DEFERRED OUTFLOWS OF RESOURCES													
Total assets and deferred outflows of resources	\$ 1,088,809	\$ 5,052	\$ 4,273	\$ 12,757	\$ 3,353	\$ 33,357	\$ 3,889	\$ 3,627	\$ 13,422	\$ 30	\$ 2,550	\$ (60,851)	\$ 1,110,268
LIABILITIES													
Current liabilities:													
Accounts payable	\$ 27,202	\$ 308	\$ 90	\$ 792	\$ 153	\$ 2,320	\$ 86	\$ 13	\$ 419	\$ -	\$ 7	\$ -	\$ 31,390
Accrued compensation and related expenses	24,296	-	-	-	-	-	-	-	1,597	-	-	-	25,893
Accrued interest expense	3,297	-	-	-	-	-	-	-	-	-	-	-	3,297
Other accrued expenses	11,625	(18,509)	(16,563)	11,632	(7,381)	29,522	(13,123)	(3,147)	60,577	670	13,945	(60,851)	8,397
Estimated third-party settlements	531	-	-	-	1,817	-	2,778	-	-	-	-	-	5,126
Long-term debt due within one year	6,355	-	-	-	-	-	-	-	-	-	-	-	6,355
Loan Payable	90,000	-	-	-	-	-	-	-	-	-	-	-	90,000
Total current liabilities	163,306	(18,201)	(16,473)	12,424	(5,411)	31,842	(10,259)	(3,134)	62,593	670	13,952	(60,851)	170,458
Other liabilities:													
Long-term debt, less amounts due within one year	273,637	-	-	-	-	-	-	-	-	-	-	-	273,637
Net pension liability	114,736	-	-	-	-	-	-	-	-	-	-	-	114,736
Total other liabilities	388,373	-	-	-	-	-	-	-	-	-	-	-	388,373
Total liabilities	551,679	(18,201)	(16,473)	12,424	(5,411)	31,842	(10,259)	(3,134)	62,593	670	13,952	(60,851)	558,831
NET POSITION													
Unrestricted	445,287	20,425	18,152	(8,718)	7,069	(21,587)	13,123	5,187	(54,160)	(640)	(12,727)	-	411,411
Net investment in capital assets	81,164	2,828	2,594	9,051	1,695	23,102	1,025	1,574	4,989	-	1,325	-	129,347
Restricted for debt service	10,679	-	-	-	-	-	-	-	-	-	-	-	10,679
Total net position	537,130	23,253	20,746	333	8,764	1,515	14,148	6,761	(49,171)	(640)	(11,402)	-	551,437
Total liabilities and net position	\$ 1,088,809	\$ 5,052	\$ 4,273	\$ 12,757	\$ 3,353	\$ 33,357	\$ 3,889	\$ 3,627	\$ 13,422	\$ 30	\$ 2,550	\$ (60,851)	\$ 1,110,268

See accompanying notes.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Statement of Revenues and Expenses and Changes in Net Position
Year Ended June 30, 2019

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	LIFT Therapy	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	System Support	Total BCUs
Revenue:													
Patient service revenues	\$ 2,289,962	\$ 44,662	\$ 26,662	\$ 168,698	\$ 26,134	\$ 699,095	\$ 18,813	\$ 31,261	\$ 150,194	\$ -	\$ 8,336	\$ -	\$ 3,463,817
Deductions from revenue	1,642,518	33,812	20,450	147,635	18,369	640,507	9,779	17,744	96,422	-	5,637	-	2,632,873
Net patient service revenues	647,444	10,850	6,212	21,063	7,765	58,588	9,034	13,517	53,772	-	2,699	-	830,944
Other operating revenues	29,670	150	47	106	80	270	9,196	136	4,670	45	3,360	1,532	49,262
Total revenues	677,114	11,000	6,259	21,169	7,845	58,858	18,230	13,653	58,442	45	6,059	1,532	880,206
Operating expenses:													
Salaries, benefits, supplies and other	579,809	9,109	6,047	25,055	7,092	56,280	17,893	11,324	75,795	474	7,127	59,045	855,050
Depreciation and amortization	40,204	591	385	666	367	1,507	256	306	469	-	167	7,745	52,663
Indirect expense	47,899	753	497	2,089	571	4,905	1,385	893	5,670	35	561	(65,258)	-
Total operating expenses	667,912	10,453	6,929	27,810	8,030	62,692	19,534	12,523	81,934	509	7,855	1,532	907,713
Operating income (loss)	9,202	547	(670)	(6,641)	(185)	(3,834)	(1,304)	1,130	(23,492)	(464)	(1,796)	-	(27,507)
Nonoperating revenues (expenses):													
Investment income	19,338	26	-	1	24	2	8	23	8	1	-	-	19,431
Interest expense	(12,567)	(198)	(130)	(548)	(150)	(1,287)	(363)	(234)	(1,487)	(9)	(148)	-	(17,121)
Contributions to affiliated entities	(2,099)	-	-	-	-	-	-	-	-	-	-	-	(2,099)
Other	(1,831)	-	-	-	-	-	-	-	-	-	-	-	(1,831)
Nonoperating revenues (expenses), net	2,841	(172)	(130)	(547)	(126)	(1,285)	(355)	(211)	(1,479)	(8)	(148)	-	(1,620)
Change in net position	12,043	375	(800)	(7,188)	(311)	(5,119)	(1,659)	919	(24,971)	(472)	(1,944)	-	(29,127)
Net position at beginning of year	537,130	23,253	20,746	333	8,764	1,515	14,148	6,761	(49,171)	(640)	(11,402)	-	551,437
Ending net position	\$ 549,173	\$ 23,628	\$ 19,946	\$ (6,855)	\$ 8,453	\$ (3,604)	\$ 12,489	\$ 7,680	\$ (74,142)	\$ (1,112)	\$ (13,346)	\$ -	\$ 522,310

See accompanying notes.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Statement of Revenues and Expenses and Changes in Net Position
Year Ended June 30, 2018

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	LIFT Therapy	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Revenue:												
Patient service revenues	\$ 2,103,822	\$ 42,377	\$ 29,665	\$ 16,192	\$ 27,988	\$ 63,255	\$ 18,639	\$ 25,601	\$ 117,117	\$ -	\$ 7,492	\$ 2,452,148
Deductions from revenue	1,481,052	31,868	23,192	13,787	19,723	57,427	7,811	14,254	73,697	-	4,827	1,727,638
Net patient service revenues	622,770	10,509	6,473	2,405	8,265	5,828	10,828	11,347	43,420	-	2,665	724,510
Other operating revenues	32,684	148	78	385	82	820	8,555	87	3,985	225	2,653	49,702
Total revenues	655,454	10,657	6,551	2,790	8,347	6,648	19,383	11,434	47,405	225	5,318	774,212
Operating expenses:												
Salaries, benefits, supplies and other	589,843	8,996	6,513	2,441	7,671	5,085	16,887	8,852	57,600	1,003	6,081	710,972
Depreciation and amortization	45,831	668	416	16	330	48	449	263	394	1	167	48,583
Total operating expenses	635,674	9,664	6,929	2,457	8,001	5,133	17,336	9,115	57,994	1,004	6,248	759,555
Direct operating income	19,780	993	(378)	333	346	1,515	2,047	2,319	(10,589)	(779)	(930)	14,657
Nonoperating revenues (expenses):												
Investment income	20,673	-	-	-	-	-	17	(3)	7	7	-	20,701
Interest expense	(14,814)	-	-	-	-	-	-	-	-	-	-	(14,814)
Contributions to affiliated entities	(958)	-	-	-	-	-	-	-	-	-	-	(958)
Other changes to net position	(6,104)	-	-	-	-	-	-	-	-	-	-	(6,104)
Nonoperating revenues (expenses), net	(1,203)	-	-	-	-	-	17	(3)	7	7	-	(1,175)
Change in net position	18,577	993	(378)	333	346	1,515	2,064	2,316	(10,582)	(772)	(930)	13,482
Net position at beginning of year	518,553	22,260	21,124	-	8,418	-	12,084	4,445	(38,589)	132	(10,472)	537,955
Ending net position	\$ 537,130	\$ 23,253	\$ 20,746	\$ 333	\$ 8,764	\$ 1,515	\$ 14,148	\$ 6,761	\$ (49,171)	\$ (640)	\$ (11,402)	\$ 551,437

See accompanying notes.

West Tennessee Healthcare and Related Affiliates
Notes to Financial Statements
(in thousands)

Condensed Statements of Cash Flows
Year Ended June 30, 2019

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	Lift Therapy	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	System Support	Total BCUs
Net cash provided by (used in) operating activities	\$ 32,656	\$ 573	\$ 427	\$ 3,679	\$ 522	\$ 8,041	\$ 884	\$ 233	\$ 2,354	\$ 53	\$ 119	\$ -	\$ 49,541
Net cash used in noncapital financing activities	(2,099)	-	-	-	-	-	-	-	-	-	-	-	(2,099)
Net cash provided by investing activities	20,647	26	-	1	24	2	8	23	8	1	-	-	20,740
Net cash provided by (used in) capital and related financing activities	(41,979)	(558)	(430)	(3,327)	(515)	(7,195)	(866)	(340)	(2,380)	(9)	(165)	-	(57,764)
Net change in cash and cash equivalents	9,225	41	(3)	353	31	848	26	(84)	(18)	45	(46)	-	10,418
Cash and cash equivalents, beginning of period	12,186	51	36	(80)	8	(327)	570	105	1,218	26	55	-	13,848
Cash and cash equivalents, end of period	<u>\$ 21,411</u>	<u>\$ 92</u>	<u>\$ 33</u>	<u>\$ 273</u>	<u>\$ 39</u>	<u>\$ 521</u>	<u>\$ 596</u>	<u>\$ 21</u>	<u>\$ 1,200</u>	<u>\$ 71</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 24,266</u>

Condensed Statements of Cash Flows
Year Ended June 30, 2018

	Jackson-Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	Lift Therapy	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Net cash provided by (used in) operating activities	\$ (13,715)	\$ 507	\$ 27	\$ 8,987	\$ 758	\$ 22,823	\$ (231)	\$ 1,027	\$ 4,213	\$ (549)	\$ 127	\$ 23,974
Net cash used in noncapital financing activities	(958)	-	-	-	-	-	-	-	-	-	-	(958)
Net cash provided by (used in) investing activities	(68,100)	-	-	-	-	-	18	(3)	7	5	-	(68,073)
Net cash provided by (used in) capital and related financing activities	69,072	(675)	(137)	(9,067)	(944)	(23,150)	(237)	(993)	(4,347)	-	(109)	29,413
Net change in cash and cash equivalents	(13,701)	(168)	(110)	(80)	(186)	(327)	(450)	31	(127)	(544)	18	(15,644)
Cash and cash equivalents, beginning of period	25,887	219	146	-	194	-	1,020	74	1,345	570	37	29,492
Cash and cash equivalents, end of period	<u>\$ 12,186</u>	<u>\$ 51</u>	<u>\$ 36</u>	<u>\$ (80)</u>	<u>\$ 8</u>	<u>\$ (327)</u>	<u>\$ 570</u>	<u>\$ 105</u>	<u>\$ 1,218</u>	<u>\$ 26</u>	<u>\$ 55</u>	<u>\$ 13,848</u>

See accompanying notes.

Required Supplementary Information

West Tennessee Healthcare and Related Affiliates
Schedule of Changes in Net Pension and OPEB Liability (Asset) and Related Ratios
(in thousands)

	Pension Plan					415(m) Pension Plan					OPEB Plan	
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015	2019	2018
Total pension and OPEB liability:												
Service cost	\$ 6,749	\$ 6,815	\$ 6,276	\$ 7,070	\$ 7,026	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16	\$ 35
Interest	22,220	21,309	19,884	19,615	18,956	40	41	42	43	43	100	121
Differences between expected and actual experience	2,376	535	8,735	(5,213)	1,467	90	5	4	4	4	(1,149)	(374)
Benefit payments	(14,657)	(14,501)	(12,540)	(20,419)	(14,387)	(70)	(70)	(70)	(70)	(70)	(41)	(142)
Net change in total pension and OPEB liability	16,688	14,158	22,355	1,053	13,062	60	(24)	(24)	(23)	(23)	(1,074)	(360)
Total pension and OPEB liability - beginning	342,314	328,156	305,801	304,748	291,686	1,032	1,056	1,080	1,103	1,126	1,540	1,900
Total pension and OPEB liability-ending (a)	359,002	342,314	328,156	305,801	304,748	1,092	1,032	1,056	1,080	1,103	466	1,540
Plan fiduciary net position:												
Contributions - employer	12,300	18,000	18,000	17,040	12,992	70	70	70	70	70	-	-
Net investment income	16,378	20,210	(4,453)	1,341	24,480	-	-	-	-	-	266	519
Benefit payments	(14,657)	(14,501)	(12,540)	(20,419)	(14,387)	(70)	(70)	(70)	(70)	(70)	(2,548)	(532)
Administrative expense	-	-	(249)	(440)	(465)	-	-	-	-	-	-	-
Net change in plan fiduciary net position	14,021	23,709	758	(2,478)	22,620	-	-	-	-	-	(2,282)	(13)
Plan fiduciary net position - beginning	228,610	204,901	204,143	206,621	184,000	-	-	-	-	-	5,116	5,129
Plan fiduciary net position-ending (b)	242,631	228,610	204,901	204,143	206,620	-	-	-	-	-	2,834	5,116
Net pension and OPEB liability (asset) (a)-(b)	\$ 116,371	\$ 113,704	\$ 123,255	\$ 101,658	\$ 98,128	\$ 1,092	\$ 1,032	\$ 1,056	\$ 1,080	\$ 1,103	\$ (2,368)	\$ (3,576)
Plan fiduciary net position as a percentage of the total pension and OPEB liability	68%	67%	62%	67%	68%	0%	0%	0%	0%	0%	608%	332%
Covered-employee payroll	\$ 144,257	\$ 148,645	\$ 150,997	\$ 141,412	\$ 153,252	N/A	N/A	N/A	N/A	N/A	N/A	\$ 265,123
Company's net pension liability (asset) as a percentage of covered-employee payroll	81%	76%	82%	72%	64%	N/A	N/A	N/A	N/A	N/A	N/A	-1.35%

Note: Information prior to 2015 for pension and 415(m) plan, and prior to 2018 for OPEB plan, is not available.

West Tennessee Healthcare and Related Affiliates
Schedule of Contributions
(in thousands)

	Pension Plan					415(m) Pension Plan					OPEB Plan	
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015	2019	2018
Actuarially determined contribution	\$ 12,378	\$ 12,300	\$ 15,427	\$ 15,552	\$ 13,141	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	(13,400)	(12,300)	(18,000)	(18,000)	(17,040)	(70)	(70)	(70)	(70)	(70)	-	-
Contribution deficiency (excess)	\$ (1,022)	\$ -	\$ (2,573)	\$ (2,448)	\$ (3,899)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 144,257	\$ 148,645	\$ 150,997	\$ 141,412	\$ 153,252	N/A	N/A	N/A	N/A	N/A	N/A	\$ 265,123
Contributions as a percentage of covered-employee payroll	9%	8%	12%	13%	11%	N/A	N/A	N/A	N/A	N/A	N/A	0%

Notes to the schedule valuation date:

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

Methods and assumptions used to determine contribution rates:

	Pension	415(m) Plan	OPEB																																																												
Valuation date	June 30, one year prior to the end of the fiscal year	June 30, one year prior to the end of the fiscal year	June 30, one year prior to the end of the fiscal year																																																												
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost																																																												
Amortization method	Closed amortization	N/A	Closed amortization																																																												
Amortization period of initial unfunded AAL	30 years	N/A	N/A																																																												
Remaining amortization period	29 years	N/A	N/A																																																												
Asset valuation method	Market value	N/A	Market value																																																												
CPI	2.5%	N/A	N/A																																																												
Salary increases	3.5% average, including inflation	N/A	N/A																																																												
Investment rate of return	6.5%, net of pension plan investment expense, including inflation	4%	6.5%, net of pension plan investment expense, including inflation																																																												
Mortality	RP-2014 Mortality Table for males and females with generational projections using Scale BB	RP-2014 Mortality Table for males and females with generational projections using Scale BB	RP-2014 Mortality Table for males and females with generational projections using Scale BB																																																												
Retirement age	Per the following table:	N/A	N/A																																																												
	<table border="1"> <thead> <tr> <th>Age</th> <th>Male</th> <th>Female</th> </tr> </thead> <tbody> <tr><td>55 - 59</td><td>5.0%</td><td>5.0%</td></tr> <tr><td>60 - 61</td><td>7.5%</td><td>7.5%</td></tr> <tr><td>62</td><td>25.0%</td><td>25.0%</td></tr> <tr><td>63 - 64</td><td>20.0%</td><td>20.0%</td></tr> <tr><td>65</td><td>40.0%</td><td>40.0%</td></tr> <tr><td>66</td><td>30.0%</td><td>30.0%</td></tr> <tr><td>67 - 68</td><td>15.0%</td><td>15.0%</td></tr> <tr><td>69</td><td>25.0%</td><td>25.0%</td></tr> <tr><td>70+</td><td>100.0%</td><td>100.0%</td></tr> </tbody> </table>	Age	Male	Female	55 - 59	5.0%	5.0%	60 - 61	7.5%	7.5%	62	25.0%	25.0%	63 - 64	20.0%	20.0%	65	40.0%	40.0%	66	30.0%	30.0%	67 - 68	15.0%	15.0%	69	25.0%	25.0%	70+	100.0%	100.0%		<table border="1"> <thead> <tr> <th>Age</th> <th>Male</th> <th>Female</th> </tr> </thead> <tbody> <tr><td>55 - 59</td><td>5.0%</td><td>5.0%</td></tr> <tr><td>60 - 61</td><td>7.5%</td><td>7.5%</td></tr> <tr><td>62</td><td>25.0%</td><td>25.0%</td></tr> <tr><td>63 - 64</td><td>20.0%</td><td>20.0%</td></tr> <tr><td>65</td><td>40.0%</td><td>40.0%</td></tr> <tr><td>66</td><td>30.0%</td><td>30.0%</td></tr> <tr><td>67 - 68</td><td>15.0%</td><td>15.0%</td></tr> <tr><td>69</td><td>25.0%</td><td>25.0%</td></tr> <tr><td>70+</td><td>100.0%</td><td>100.0%</td></tr> </tbody> </table>	Age	Male	Female	55 - 59	5.0%	5.0%	60 - 61	7.5%	7.5%	62	25.0%	25.0%	63 - 64	20.0%	20.0%	65	40.0%	40.0%	66	30.0%	30.0%	67 - 68	15.0%	15.0%	69	25.0%	25.0%	70+	100.0%	100.0%
Age	Male	Female																																																													
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Other Information

**West Tennessee Healthcare and Related Affiliates
Deductions From Gross Patient Service Revenues
(in thousands)**

Year Ended June 30, 2019

	Jackson- Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	LIFT Therapy	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Medicare	\$ 890,682	\$ 15,798	\$ 6,949	\$ 65,034	\$ 7,956	\$ 361,574	\$ 909	\$ 8,180	\$ 42,682	\$ -	\$ 5	\$ 1,399,769
TennCare	262,390	6,749	5,560	36,024	4,298	144,881	3,217	3,960	17,725	-	3,673	488,477
Other revenue deductions	446,771	9,184	6,079	43,433	4,281	121,024	5,452	4,848	33,214	-	1,879	676,165
Bad debt	42,675	2,081	1,862	3,144	1,834	13,028	201	756	2,801	-	80	68,462
	<u>\$ 1,642,518</u>	<u>\$ 33,812</u>	<u>\$ 20,450</u>	<u>\$ 147,635</u>	<u>\$ 18,369</u>	<u>\$ 640,507</u>	<u>\$ 9,779</u>	<u>\$ 17,744</u>	<u>\$ 96,422</u>	<u>\$ -</u>	<u>\$ 5,637</u>	<u>\$ 2,632,873</u>

Year Ended June 30, 2018

	Jackson- Madison County General Hospital	Milan General Hospital	Bolivar General Hospital	Volunteer Martin Hospital	Camden General Hospital	Dyersburg Hospital	Pathways Behavioral Health	LIFT Therapy	West Tennessee Medical Group	Health Partners	Therapy & Learning Center	Total BCUs
Medicare	\$ 805,573	\$ 14,834	\$ 8,197	\$ 5,905	\$ 8,754	\$ 29,930	\$ 781	\$ 7,835	\$ 37,323	\$ -	\$ -	\$ 919,132
TennCare	236,144	6,338	6,331	3,482	4,798	14,108	3,432	2,214	12,637	-	3,153	292,637
Other revenue deductions	397,280	8,695	6,477	4,400	4,392	13,389	3,341	3,801	20,412	-	1,655	463,842
Bad debt	42,055	2,001	2,187	-	1,779	-	257	404	3,325	-	19	52,027
	<u>\$ 1,481,052</u>	<u>\$ 31,868</u>	<u>\$ 23,192</u>	<u>\$ 13,787</u>	<u>\$ 19,723</u>	<u>\$ 57,427</u>	<u>\$ 7,811</u>	<u>\$ 14,254</u>	<u>\$ 73,697</u>	<u>\$ -</u>	<u>\$ 4,827</u>	<u>\$ 1,727,638</u>

West Tennessee Healthcare and Related Affiliates
Schedule of Changes in Long-term Debt by Individual Issue
(in thousands)

<u>Description of Indebtness</u>	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Last Maturity Date</u>	<u>Outstanding July 1, 2018</u>	<u>Issued During Period</u>	<u>Paid and/or Matured During Period</u>	<u>Refunded During Period</u>	<u>Outstanding June 30, 2019</u>
Notes Payable									
Bridge loan	\$ 90,000	2.31%	May 31, 2018	October 1, 2018	\$ 90,000	\$ -	\$ 90,000	\$ -	\$ -
Bonds payable									
Hospital Revenue Bonds, Series 2008	318,980	3.5% - 5.75%	August 1, 2008	April 1, 2041	73,425	-	-	73,425	-
Hospital Revenue Bonds, Series 2015	205,965	2.0% - 5.25%	April 5, 2015	April 1, 2041	192,305	-	4,670	-	187,635
Hospital Revenue Bonds, Series 2018A	62,870	5%	November 1, 2018	April 1, 2041	-	62,870	1,890	-	60,980
Hospital Revenue Bonds, Series 2018B	91,025	3.25% - 5.31%	November 1, 2018	April 1, 2048	-	91,025	545	-	90,480
					265,730	153,895	7,105	73,425	339,095
Capital lease obligations									
Equipment lease - March 2019	9,808	4%	March 1, 2019	February 1, 2024	-	9,808	379	-	9,429
Equipment lease - May 2019	627	4%	May 1, 2019	May 1, 2029	-	627	17	-	610
					-	10,435	396	-	10,039
Totals					\$ 355,730	\$ 164,330	\$ 97,501	\$ 73,425	\$ 349,134

Compliance Information



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*

Board of Trustees
West Tennessee Healthcare and Related Affiliates
Jackson, 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 West Tennessee Healthcare and Related Affiliates (the "Company"), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues and expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 4, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Dixon Hughes Goodman LLP

Memphis, Tennessee

October 4, 2019