

**DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2010

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Decatur County General Hospital (a component unit of Decatur County, Tennessee)

We have audited the accompanying financial statements of Decatur County General Hospital (a component unit of Decatur County, Tennessee) as of and for the year ended June 30, 2010, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Decatur County General Hospital's (a component unit of Decatur County, Tennessee) management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Decatur County General Hospital (a component unit of Decatur County, Tennessee) as of June 30, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010, on our consideration of Decatur County General Hospital's (a component unit of Decatur County, Tennessee) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussions and analysis on pages 3 through 5 is not a required part of the accompanying financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of Decatur County General Hospital (a component unit of Decatur County, Tennessee). Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Burk, Pearlman, Nelson & Huggins, PLLC

Chattanooga, Tennessee
December 20, 2010

Management Discussion and Analysis

Our discussion and analysis of Decatur County General Hospital's (DCGH) financial performance provides an overview of the Hospital's financial activities for the year ended June 30, 2010. However, please refer to the financial statements for an in-depth understanding of this analysis.

For the fiscal year ended June 30, 2007, DCGH lost \$784,510. For the fiscal year ended June 30, 2008, DCGH lost \$1,488,212. After the current audit adjustments, we had a prior year adjustment loss of \$390,999, therefore, the year ended June 30, 2009 was an adjusted loss of \$803,031. We posted a loss this year ended June 30, 2010 as well. However, the loss was \$310,548, which represents a \$492,483 improvement over the previous year. Management is determined to improve financial performance. There are many reasons for this turnaround, including new services, expense management, and efficient operations.

New services and physicians have been introduced to this facility to improve access to area residents to better meet the healthcare needs of our community. The medical staff and the community have responded positively by utilizing the new services, all of which were made available to meet the needs of this community and enhance the healthcare provide by DCGH. Key financial highlights are as follows.

- Magnetic Resonance Imaging (MRI) was introduced to this facility in 2008.
- Sleep Center was introduced in 2009.
- Accredited Chest Pain Center.
- Stroke Center in St. Thomas Network.
- Two Surgeons joined the Medical Staff in 2010.
- Electronic Medical Records make us eligible for \$4.5 million Medicare funds in the next 4 years.
- Electronic Medical Records created efficiencies in workflow and faster billing.
- PACS grant of \$285,000 was awarded in 2010.
- Business Office Improvement Plan has resulted in reduction of A/R days, therefore, increased cash flow.
- HCAPP scores improving due to better customer service.
- Hospital Program has increased quality and efficiency.
- All Departments now have interconnecting energy and focus on care delivery.

The financial performance of DCGH is summarized below. Current assets dropped significantly, most notably in net accounts receivable by over \$800,000. The reduction occurred through efficiencies in which insurance claims are processed, quickening the rate at which these claims are paid. This additional cash flow offered management the opportunity to significantly reduce liabilities from a year ago. Overall liabilities were reduced \$318,000.

COMPARATIVE DATA

Statement of Net Assets

	<u>June 30, 2010</u>	<u>Percent of Total</u>	<u>June 30, 2009</u>	<u>Percent of Total</u>
Current and other assets	\$1,404,947	37.1%	\$1,928,605	45.9%
Capital assets	<u>2,381,069</u>	<u>62.9%</u>	<u>2,486,222</u>	<u>54.1%</u>
Total Assets	<u>\$3,786,016</u>	<u>100.0%</u>	<u>\$4,414,827</u>	<u>100.0%</u>
Long-term liabilities	\$1,351,630	31.6%	\$1,796,087	39.1%
Other liabilities	<u>2,925,937</u>	<u>68.4%</u>	<u>2,799,743</u>	<u>60.9%</u>
Total Liabilities	<u>\$4,277,567</u>	<u>100.0%</u>	<u>\$4,595,830</u>	<u>100.0%</u>

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Net assets		
Invested in capital assets, net of related debt	\$1,152,229	\$ 1,220,734
Unrestricted Net Deficit	<u>(1,643,780)</u>	<u>(1,401,737)</u>
Total Net Assets (Deficit)	<u>\$ (491,551)</u>	<u>\$ (181,003)</u>
Revenues		
Net patient revenues	\$9,897,852	\$10,391,996
Other operating revenue	<u>269,464</u>	<u>186,687</u>
Total Revenues	<u>10,167,316</u>	<u>10,578,683</u>
Expenses		
Nursing services	2,681,973	2,110,559
Other professional services	4,399,650	5,425,454
General services	1,393,305	817,428
Fiscal and administrative services	1,510,938	2,537,248
Depreciation	<u>427,560</u>	<u>439,914</u>
Total Expenses	<u>10,413,426</u>	<u>11,330,603</u>
Operating income (loss)	(246,110)	(751,920)
Nonoperating expenses	<u>(64,438)</u>	<u>(51,111)</u>
Change in net assets	<u>\$ (310,548)</u>	<u>\$ (803,031)</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Property and equipment net of accumulated depreciation decreased by \$105,153, or 4.2%. Accumulated depreciation increased \$331,850, or 5.4%. However, the increase in accumulated depreciation is less than increases of the previous year.

At June 30, 2010, the Hospital has long-term debt instruments totaling \$1,895,750. This is a reduction of \$398,556 from the previous year's debt of \$2,294,306. Of the \$1.9 million of debt, \$544,120 is considered current. Decatur County currently supports the Hospital by annually contributing approximately \$35,000 toward the retirement of long-term debt. The amount of \$1,095,593 is the total amount of debt (net of the loss on past bond refunding of \$14,407) currently held by Decatur County. An amount of \$738,483 represents notes payable to a local bank secured by accounts receivable and certain long-term assets. The notes have an interest rate of 7%. We also have capital lease obligations totaling \$61,674.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

The breakdown for operating revenue consists of approximately 30% inpatient and 70% outpatient.

Medicare and TennCare revenues make up 87.8% of the Hospital's total patient revenue. Commercial payers total 8.2% and private-pay represents 4.0%.

The budgeting process for the upcoming year beginning July 1, 2010 now requires significant additional participation by facility department managers.

For the fiscal year beginning July 1, 2010, the Hospital projects \$10,901,881 in total net patient revenues. Operating expenses are budgeted at \$11,012,494. Recognizing other sources of income produces \$110,995 of income in excess of expenses. Included in the budgeted revenues are long-standing and previously mentioned new services of Magnetic Resonance Imaging (MRI), Sleep Center and the hospital-based physician or Hospitalist program.

CONTACTING THE DECATUR COUNTY GENERAL HOSPITAL MANAGEMENT

The financial report is designed to provide our citizens, customers, taxpayers and creditors with a general overview of the Hospital's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Accounting Department for the Decatur County General Hospital, 969 Tennessee Avenue South, Parsons, Tennessee 38363.

The Decatur County General Hospital Board of Trustees consists of the following individuals:

- Dale A. Scott, Chairman
- Preston Shaw, Secretary
- Wayne Stanfill
- Will Quinn
- Jon Ayers
- Mary Ivey
- Mike Ivey

The Senior Management of Decatur County General Hospital consists of the following officers:

- Norene Pumphrey, Chief Executive Officer
- Tamara H. Pagitt, Controller

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

STATEMENT OF NET ASSETS (DEFICIT)

June 30, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 293,976
Patient accounts receivable, net of estimated collectibles of \$1,344,091	760,901
Inventories	253,308
Prepaid expenses	33,468
Due from physicians	<u>63,294</u>

TOTAL CURRENT ASSETS 1,404,947

CAPITAL ASSETS

Land	81,696
Depreciable capital assets, net of accumulated depreciation	<u>2,299,373</u>

TOTAL CAPITAL ASSETS, net 2,381,069

TOTAL ASSETS \$3,786,016

LIABILITIES AND NET ASSETS (DEFICIT)

CURRENT LIABILITIES

Current maturities of long-term debt	\$ 544,120
Accounts payable	837,702
Accrued compensated absences	414,775
Other accrued expenses	216,662
Estimated third-party payor settlements	<u>912,678</u>

TOTAL CURRENT LIABILITIES 2,925,937

Long-term debt, net of current maturities 1,351,630

TOTAL LIABILITIES 4,277,567

NET ASSETS (DEFICIT)

Invested in capital assets net of related debt	1,152,229
Unrestricted	<u>(1,643,780)</u>

TOTAL NET ASSETS (DEFICIT) (491,551)

TOTAL LIABILITIES AND NET ASSETS (DEFICIT) \$3,786,016

See accompanying notes to the financial statements.

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)

Year Ended June 30, 2010

OPERATING REVENUE	
Net patient service revenue, net of provisions for bad debts of \$1,206,809	\$ 9,897,852
Other revenue	<u>269,464</u>
TOTAL OPERATING REVENUE	<u>10,167,316</u>
OPERATING EXPENSES	
Salaries and benefits	5,814,445
Medical supplies and drugs	962,873
Other supplies	153,281
Insurance	89,494
Depreciation	427,560
Other expenses	<u>2,965,773</u>
TOTAL OPERATING EXPENSES	<u>10,413,426</u>
OPERATING LOSS	<u>(246,110)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	262
Interest expense	(123,448)
Gain on disposal of fixed assets	23,748
Capital contribution from Decatur County	<u>35,000</u>
TOTAL NONOPERATING REVENUES (EXPENSES), net	<u>(64,438)</u>
EXCESS OF EXPENSES OVER REVENUE AND DECREASE IN NET ASSETS	<u>(310,548)</u>
Net assets at beginning of year, as previously reported	209,996
Prior period adjustment	<u>(390,999)</u>
Net assets (deficit) at beginning of year, as restated	<u>(181,003)</u>
Net assets (deficit) at end of year	<u>\$ (491,551)</u>

See accompanying notes to the financial statements.

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from patients and third-party payors	\$10,901,461
Cash payments to supplies for goods and services	(5,825,921)
Cash payments to employees for services	(4,706,559)
Other revenue	<u>269,464</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>638,445</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments on long-term debt	(334,723)
Interest paid	<u>(58,598)</u>
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	<u>(393,321)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of property and equipment	(239,599)
Proceeds from sale of equipment	31,400
Payments on bonds payable, net of contribution from Decatur County	(66,070)
Payments on long-term debt	(29,640)
Interest paid	<u>(59,740)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(363,649)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>262</u>
Net decrease in cash	(118,263)
Cash at beginning of year	<u>412,239</u>
Cash at end of year	<u>\$ 293,976</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$(246,110)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	427,560
Change in assets and liabilities:	
(Increase) decrease in :	
Accounts receivable	732,200
Inventory	5,731
Prepaid expenses	8,797
Due from physicians	20,973
Increase (decrease) in:	
Accounts payable	(144,135)
Accrued compensated absences	(350,992)
Other accrued expenses	(86,988)
Estimated third-party payor settlements	<u>271,409</u>
	<u>\$638,445</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Capital lease	<u>\$ 63,276</u>

See accompanying notes to the financial statements.

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity. Decatur County General Hospital (the Hospital) is a political subdivision of Decatur County, Tennessee (the County). The Hospital is a 40-bed community hospital located in Parsons, Tennessee, that provides health care services to patients primarily in the Decatur County area. The Decatur County Emergency Medical Services is considered a department of the Hospital and is included within these financial statements. The Hospital is governed by a Board of Trustees under the authority of the Board of Commissions of the County. The Board of County Commissioners appoints the Board of Trustees of the Hospital. Under accounting principles generally accepted in the United States of America, the Hospital constitutes a component unit of the County for financial reporting purposes.

Enterprise fund accounting. The Hospital uses the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Accounting standards. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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

Net patient service revenue. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Patient service revenue is net of contractual adjustments and policy discounts of approximately \$11,000,000 for the year ended June 30, 2010.

Revenue from the Medicare and Medicaid programs accounted for approximately 51 and 5 percent, respectively, for the year ended June 30, 2010, of the Hospital's net patient service revenue. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Charity care. The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges under this policy were \$170,790 for the year ended June 30, 2010.

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Operating revenues and expenses. The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including interest, grants, and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Income taxes. The Hospital, as a component unit of Decatur County, Tennessee, is exempt from federal and state income taxes.

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

Accounts receivable. Accounts receivable are stated at the amount the Hospital expects to collect. The Hospital maintains allowances for doubtful accounts for estimated losses resulting from the inability of its patients to make required payments. Management considers the following factors when determining the collectability of specific patient accounts: payor credit-worthiness, past transaction history with the payor, current economic industry trends, and changes in payor payment terms. If the financial condition of the Hospital's payors or patients were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Hospital provides for estimated uncollectible amounts through a charge to earnings and a credit to an allowance. Balances that remain outstanding after the Hospital has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

Capital assets. Assets with a useful life of greater than one year and a cost of greater than \$1,500 are recorded as capital assets and are stated at cost. Depreciation is calculated over the estimated useful lives using the straight-line method. Expenditures for maintenance, repairs, renewals and betterments that do not significantly extend the useful lives of the assets are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the books, and any resulting gain or loss is reflected in income for the period.

A summary of estimated useful lives follows.

	<u>Estimated Useful Lives</u>
Land improvements	5 - 15 years
Buildings and improvements	15 - 42 years
Machinery and equipment	3 - 38 years

Cash and cash equivalents. The Hospital considers currency on hand and demand deposits with financial institutions to be cash. The Hospital considers all highly liquid investments with original maturities of three months or less to be cash equivalents. State statutes authorize the Hospital to invest in obligations of the U.S. Treasury, bank certificates of deposit, state approved repurchase agreements, pooled investment funds, and state or local bonds, rated A or higher by a nationally recognized rating service. There were no cash equivalents at June 30, 2010.

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Risk management. The Hospital 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 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.

Net assets. Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*. There were no restricted assets at June 30, 2010.

Property and equipment, net	\$2,381,069
Less:	
Current portion of long-term debt relating to the acquisition of property and equipment	(153,878)
Long-term debt, excluding current portion relating to the acquisition of property and equipment	<u>(1,074,962)</u>
Invested in capital assets, net of related debt	<u>\$1,152,229</u>

NOTE B - CASH AND CASH EQUIVALENTS

Custodial credit risk - deposits. For deposits, custodial risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. Collateral is required for demand deposits and certificates of deposit at 110% of all amounts not covered by a federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State of Tennessee and its subdivisions. All of the Hospital's cash and cash equivalents are insured or collateralized by securities held by the financial institutions' trust department in the Hospital's name.

The Hospital currently has no formal policy addressing custodial risk, except to comply with State statutes.

NOTE C - NET PATIENT SERVICE REVENUE.

The Hospital received revenue under various third-party reimbursement programs which include Medicare, TennCare, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings and its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. The 2010 net patient service revenue increased \$117,244 due to prior year retroactive adjustments in excess of amounts previously estimated.

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for Medicare outpatient services under a Prospective Payment System (OPPS) based on clinical, diagnostic, and other factors. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and review by the Medicare fiscal intermediary.

TennCare. On January 1, 1994, the Medicaid program for acute care services was replaced by a waiver program approved by CMS (Center for Medicare/Medicaid Services). Under the program, the Hospital enters into agreements with state contracted managed care organizations which reimburse the Hospital using various payment methodologies, such as prospectively determined rates per discharge, prospectively determined daily rates, and discounts from established charges.

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

NOTE D - INVENTORIES

Inventories on June 30, 2010, consist of the following.

Pharmacy	\$120,268
General supplies	80,405
Dietary	5,631
Laboratory	37,417
Radiology	2,344
EMS	<u>7,243</u>
	<u>\$253,308</u>

NOTE E - CAPITAL ASSETS

A summary of changes in capital assets follows.

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2010</u>
Land	\$ 81,696	\$ --	\$ --	\$ 81,696
Land improvements	153,221	--	--	153,221
Buildings and improvements	2,726,874	27,592	--	2,754,466
Machinery and equipment	<u>5,648,158</u>	<u>303,466</u>	<u>104,331</u>	<u>5,847,293</u>
Totals at historical cost	<u>8,609,949</u>	<u>331,058</u>	<u>104,331</u>	<u>8,836,676</u>
Less accumulated depreciation for:				
Land improvements	153,154	46	--	153,200
Buildings and improvements	1,515,009	95,325	--	1,610,334
Machinery and equipment	<u>4,455,564</u>	<u>332,189</u>	<u>95,680</u>	<u>4,692,073</u>
Total accumulated depreciation	<u>6,123,727</u>	<u>427,560</u>	<u>95,680</u>	<u>6,455,607</u>
Property and equipment, net	<u>\$2,486,222</u>	<u>\$96,502</u>	<u>\$ 8,651</u>	<u>\$2,381,069</u>

Amortization of assets acquired under capital lease obligations is included in depreciation expense.

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE F - LONG-TERM DEBT

Bonds payable	\$1,110,000
Less: deferred loss on bond refunding	(14,407)
Note payable to bank, payable in monthly installments of \$35,461 including interest at 7% per annum, until January 2012, secured by accounts receivable and certain equipment	666,911
Note payable to bank, payable in monthly installments of \$3,080 including interest at 7% per annum, until June 2012, secured by certain equipment	71,572
Capital lease obligation payable in monthly installments of \$1,934, including interest at an imputed interest rate of 6.309% until June 2013, collateralized by leased equipment	<u>61,674</u>
	1,895,750
Less current portion of long-term debt	<u>544,120</u>
Long-term debt, net of current maturities	<u>\$1,351,630</u>

Hospital Revenue and Tax Refunding and Improvement Bond Series 1999, dated April 1, 1999, were issued for the purpose of (a) advance refunding the Series 1994 bonds, and (b) financing the construction of additions to and equipping of the Hospital. They are due in annual principal installments through 2019 and semiannual installments of interest from 4.4% to 5.4%. Hospital revenues are the source of payment. The Hospital is responsible to remit funds to the County in amounts that are sufficient to cover the scheduled debt service payments. The Hospital incurred a loss on bond refunding related to these notes that will be amortized over the life of the bonds. The deferred loss has a balance of \$14,407 as of June 30, 2010.

The capital leased asset has a cost of \$63,276 and a carrying value of \$61,342 at June 30, 2010.

Scheduled payments on long-term debt are as follows.

<u>Year Ending June 30</u>	<u>Bonds and Notes Payable</u>		<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 525,942	\$ 90,591	\$18,178	\$3,094
2012	427,541	56,603	21,064	2,142
2013	110,000	43,070	22,432	774
2014	115,000	38,120	--	--
2015	120,000	32,888	--	--
2016-2019	<u>550,000</u>	<u>71,668</u>	<u>--</u>	<u>--</u>
	1,848,483	<u>\$332,940</u>	<u>\$61,674</u>	<u>\$6,010</u>
Deferred loss on bond refunding	<u>(14,407)</u>			
	<u>\$1,834,076</u>			

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Activity for long-term debt for 2010 follows.

	<u>Balance at July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2010</u>	<u>Amount Due Within One Year</u>
Bonds payable	\$1,211,070	\$ --	\$101,070	\$1,110,000	\$105,000
Deferred loss on bond refunding	(18,008)	--	3,601	(14,407)	--
Notes payable	1,101,244	--	362,761	738,483	420,942
Capital lease	<u>--</u>	<u>63,276</u>	<u>1,602</u>	<u>61,674</u>	<u>18,178</u>
Total long-term debt	<u>\$2,294,306</u>	<u>\$63,276</u>	<u>\$469,034</u>	<u>\$1,895,750</u>	<u>\$544,120</u>

NOTE G - COMPENSATED ABSENCES

The Hospital provides its full-time and part-time employees with paid days off for holiday, vacation, sick leave, and bereavement absences. The paid days off begin accruing after a six month probationary period and are based on the schedule which follows. Such days may be taken only after the employee has earned them. At the end of each fiscal year, employees may choose to be paid the remainder of their annual accrual at a rate of \$0.75 on the dollar. All earned days must be taken or paid out annually, except that an employee may carry forward up to 240 hours with less than 5 years of employment and up to 320 hours with 5 or more years of employment. Such liabilities have been accrued in the accompanying statement of net assets.

A summary of accruing rates follows.

<u>Full-time Employees</u>		<u>Part-time Employees</u>	
<u>Years of Service</u>	<u>Hours earned per year</u>	<u>Years of Service</u>	<u>Hours earned per hour worked</u>
0-1	176	0-1	0.08461
2-4	210	2-4	0.10096
5-14	251	5-14	0.12067
15 or more	270	15 or more	0.12989

NOTE H - PENSION PLAN

The Hospital established an employee retirement plan effective January 1, 1988. The plan has been amended at various times since 1988 and is maintained on a calendar year basis. The following description of the Decatur County General Hospital Retirement Matching Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

The Plan is a defined contribution plan which was adopted to provide retirement benefits for employees of the Hospital. The Plan covers substantially all full-time employees of the Hospital who have completed six months of service (the participants). The Plan is subject to the provision for the Employee Retirement Income Security Act of 1974 (ERISA).

Participants may voluntarily make qualified retirement contributions to the Plan which are deductible by the participants for federal income tax purposes under Section 457(f) of the Internal Revenue Code (IRC).

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

In order to participate, employees must make a minimum contribution of 1% of compensation. Participant contributions are permitted up to 100% of compensation.

The Hospital may make matching contributions equal to a discretionary percentage, as determined annually by the Hospital's Retirement Trust Committee. The Hospital made a matching contribution of 3% for the year ending June 30, 2010. The Hospital contributions for the year ended June 30, 2010 were \$60,711. Benefits of \$269,589, established when the plan was adopted, are being amortized over 43 years, based on the expected future service periods of the original eligible employees.

Hospital and participant contributions may not exceed the maximum amount deductible for federal income tax purposes.

NOTE I - RELATED PARTY TRANSACTIONS

The County has an understanding with the Hospital to remit funds to the County that will pay all amounts required to service the 1999 bonds. At June 30, 2010, the Hospital was current with its required principal and interest due to the County. At June 30, 2010, the Hospital had approximately \$69,000 in retired bond payments due to the County.

NOTE J - COMMITMENTS AND CONTINGENCIES

Operating leases. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

The Hospital leases various equipment under operating lease agreements. Rent expense was \$65,087 in 2010.

A summary of future minimum payments under these leases as of June 30, 2010 is as follows.

<u>Year Ending June 30</u>	
2011	\$71,078
2012	49,877
2013	41,451
2014	26,317
2015	<u>4,680</u>
	<u>\$193,403</u>

Professional liability insurance. The Hospital is insured for professional liability under a claims-made policy with an independent insurance carrier. The policy covers all claims reported to the carrier during the coverage period. Premiums are determined by a variety of factors related to the Hospital.

Management agreement. A management agreement between the Hospital and Quorum Health Resources, Inc., (Quorum) was signed on October 7, 2009, with effective dates of August 25, 2009 through August 24, 2011. The annual fee is \$137,500 for the contract year beginning August 25, 2009, increases annually by a factor equal to the lower of three percent or the percentage increase in the Consumer Price Index, and

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

is payable in equal monthly installments. Management services in addition to the fixed fee services are provided by Quorum as needed at varying rates. The total management fees paid to Quorum were \$162,256 in 2010.

The management services provided pursuant to the fixed fee include budget assistance, accounting supervision, human resources consultations, and access to a Quorum sponsored volume purchasing program. Certain "administrative fees" may be paid to Quorum by outside vendors that sell goods and services to the Hospital. The administrative fee payable to Quorum by these outside vendors is equal to 3% or less of the purchase price of the goods or services purchased from the vendor by the Hospital. The contract provides that these fees shall be disclosed to the Hospital annually in writing.

Litigation. The Hospital is subject to claims and suits which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings has been adequately provided for in its financial statement, and will not have a material effect on the Hospital's results of operations or financial position.

NOTE K – CONCENTRATIONS OF CREDIT RISK

The Hospital is located in Decatur County, Tennessee. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 follows.

Medicare	40%
Medicaid/TennCare	11
Blue Cross/Commercial	27
Private pay	<u>22</u>
	<u>100%</u>

NOTE L - PRIOR PERIOD ADJUSTMENT

Unrestricted net assets (deficit) at the beginning of fiscal year 2010 have been adjusted to report the effect of Medicare outpatient reimbursement in the proper period. The adjustment has no effect on the results of the current year's activities; however, the effect decreases beginning unrestricted net assets (deficit) for 2010 by \$390,999.

NOTE M - SUBSEQUENT EVENTS

The Hospital noted no transactions that would provide evidence about material conditions that did not exist at the balance sheet date but arose subsequently, through the date these financial statements were available to be issued, December 20, 2010.

SUPPLEMENTARY INFORMATION

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

SCHEDULE 1 - SALARIES AND BENEFITS

Year Ended June 30, 2010

NURSING SERVICES	
Nursing administration	\$ 90,473
Medical/surgical nursing	1,084,797
Surgery	96,970
Emergency room	<u>466,849</u>
TOTAL NURSING SERVICES	<u>1,739,089</u>
OTHER PROFESSIONAL SERVICES	
Outpatient clinic	76,283
Dr. Alderson clinic	42,520
Respiratory	180,476
School nurse program	30,159
Laboratory	469,189
Radiology	426,301
Pharmacy	200,074
Biomed information system	45,799
Physical therapy	195,373
EMS	<u>636,217</u>
TOTAL OTHER PROFESSIONAL SERVICES	<u>2,302,391</u>
GENERAL SERVICES	
IT software	51,797
Medical records	179,816
Dietary	133,141
Maintenance	84,717
Environmental services	122,131
Purchasing	102,664
JCAHO/CQI/risk management	152,151
Community relations	<u>24,658</u>
TOTAL GENERAL SERVICES	<u>851,075</u>
ADMINISTRATIVE AND FISCAL SERVICES	
Human resources	87,497
Finance administration	64,795
General accounting	137,348
Business office	339,535
Administration	172,055
Physicians billing	<u>120,660</u>
TOTAL ADMINISTRATIVE AND FISCAL SERVICES	<u>921,890</u>
TOTAL SALARIES AND BENEFITS	<u>\$5,814,445</u>

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

SCHEDULE 2 - MEDICAL SUPPLIES AND DRUGS

Year Ended June 30, 2010

NURSING SERVICES	
Medical/surgical nursing	\$ 44,399
Surgery	59,840
Emergency room	<u>25,898</u>
TOTAL NURSING SERVICES	<u>130,137</u>
OTHER PROFESSIONAL SERVICES	
Outpatient clinic	4,125
Dr. Alderson clinic	27
Respiratory	11,319
IV solutions	52,300
Laboratory	320,729
Radiology	50,914
Pharmacy	358,446
Physical therapy	1,846
EMS	<u>33,030</u>
TOTAL OTHER PROFESSIONAL SERVICES	<u>832,736</u>
TOTAL MEDICAL SUPPLIES AND DRUGS	<u>\$962,873</u>

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

SCHEDULE 3 - OTHER SUPPLIES

Year Ended June 30, 2010

NURSING SERVICES	
Nursing administration	\$ 101
Medical/surgical nursing	10,983
Surgery	1,071
Emergency room	<u>3,197</u>
TOTAL NURSING SERVICES	<u>15,352</u>
OTHER PROFESSIONAL SERVICES	
Outpatient clinic	4,186
Respiratory	6,771
IV solutions	336
Laboratory	3,767
Radiology	14,581
Pharmacy	2,533
Biomed information systems	10
Physical therapy	502
EMS	<u>1,409</u>
TOTAL OTHER PROFESSIONAL SERVICES	<u>34,095</u>
GENERAL SERVICES	
IT software	10
Medical records	2,928
Dietary	54,463
Maintenance	13,968
Environmental services	18,440
Purchasing	5,892
JCAHO/CQI/risk management	195
Community relations	<u>478</u>
TOTAL GENERAL SERVICES	<u>96,374</u>
ADMINISTRATIVE AND FISCAL SERVICES	
Human resources	1,357
Finance administration	212
General accounting	1,410
Business office	2,930
Administration	1,076
Physicians billing	<u>475</u>
TOTAL ADMINISTRATIVE AND FISCAL SERVICES	<u>7,460</u>
TOTAL OTHER SUPPLIES	<u>\$153,281</u>

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)

SCHEDULE 4 - OTHER EXPENSES

Year Ended June 30, 2010

NURSING SERVICES	
Nursing administration	\$ 542
Medical/surgical nursing	34,202
Surgery	129,260
Emergency room	<u>633,391</u>
TOTAL NURSING SERVICES	<u>797,395</u>
OTHER PROFESSIONAL SERVICES	
Outpatient clinic	4,885
Dr. Alderson clinic	1,620
Respiratory	17,964
Hospitalist	259,892
IV solutions	275
Laboratory	96,929
Radiology	709,153
Pharmacy	12,062
Biomed information systems	34,928
Physical therapy	8,902
EMS	<u>83,818</u>
TOTAL OTHER PROFESSIONAL SERVICES	<u>1,230,428</u>
GENERAL SERVICES	
IT software	127,219
Medical records	31,752
Dietary	4,735
Maintenance	172,745
Environmental services	9,640
Laundry/linen	59,396
Purchasing	310
JCAHO/CQI/risk management	32,618
Community relations	<u>7,441</u>
TOTAL GENERAL SERVICES	<u>445,856</u>
ADMINISTRATIVE AND FISCAL SERVICES	
Human resources	23,447
Finance administration	55,731
General accounting	10,078
Business office	137,413
Administration	240,182
Physicians billing	<u>25,243</u>
TOTAL ADMINISTRATIVE AND FISCAL SERVICES	<u>492,094</u>
TOTAL OTHER EXPENSES	<u>\$2,965,773</u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
Decatur County Medical Center (a component unit of Decatur County, Tennessee)

We have audited the financial statements of Decatur County General Hospital (a component unit of Decatur County, Tennessee) (the Hospital), as of and for the year ended June 30, 2010, and have issued our report thereon dated December 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

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*.

This report is intended solely for the information and use of management, Board of Trustees, the State of Tennessee, and the Decatur County Government and is not intended to be and should not be used by anyone other than these specified parties.

Burb, Pearlman, Nollen, Huggins, PLLC

Chattanooga, Tennessee
December 20, 2010