HENRY COUNTY MEDICAL CENTER
BOARD OF TRUSTEES MEETING

(Solely for the use of the Board of Trustees and Management)

September 25, 2008

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Report to the Board of Trustees

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LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

To the Board of Trustees
Henry County Medical Center
Paris, Tennessee:

We have audited the financial statements and supplemental schedules of Henry County Medical Center (Medical Center), a component unit of Henry County, Tennessee, for the year ended June 30, 2008, and have issued our report thereon dated September 22, 2008. Under auditing standards generally accepted in the United States of America, we are providing you with the following information related to the conduct of our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

Our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Medical Center. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you during May 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Medical Center are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Medical Center during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimates of the depreciable lives of property and equipment, allowance for bad debts, contractual adjustments and estimated third-party settlements are based, among other factors, on historical information, trends of delinquencies and charge-offs, and cost report settlements. In addition, management's estimates of incurred but not reported claims (IBNR) for self-insurance is based among other factors on historical claims data, utilization statistics, and other related data. We evaluated the key factors and assumptions used to develop the depreciable lives of property and equipment, allowance for bad debts, contractual adjustments, third-party settlements, and IBNR and had discussions with management in determining that the balances are reasonable in relation to the financial statements of the Medical Center taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 22, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Medical Center's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Medical Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Independence

We are not aware of any relationships between our firm and the Medical Center that, in our professional judgment, may reasonably be thought to bear on our independence which have occurred during the period from July 1, 2007 through the date of this letter.

Internal Control

In planning and performing our audit of the Medical Center, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, during our audit we became aware of the following matter which is an opportunity for strengthening internal controls and operating efficiency.

In-house/Unbilled Accounts Receivable

We noted that In-house/unbilled accounts receivable has increased from approximately $2,000,000 at June 30, 2005 to approximately $4,000,000 at June 30, 2006, approximately $4,600,000 at June 30, 2007, and approximately $5,600,000 at June 30, 2008. We recommend that management implement procedures to decrease the in-house/unbilled accounts receivable in order to improve cash flow.

Management's Response: Management continues to assess each component in the revenue cycle for days in accounts receivable. Goals and benchmarks are monitored. From our assessments we continue to refine our workflow and processes. The equivalent days for the above dollar amounts are stated in the following chart. The benchmark is from the Hospital Accounts Receivable Organization and is the average days for a hospital with 100-199 beds. The average for all hospitals in the southeast region is 17.78 days.

	2005	2006	2007	2008	Benchmark
Dollars	$2,000,000	$4,000,000	$4,600,000	$5,600,000	
Days	6.49	11.57	13.38	14.55	13.25

During the fall of 2007 system implementations were completed for the medical records processes. With the technology and changes to our workflow, we should begin to see improvements. Concurrent coding also began during the year for Medicare. This program will be expanded to include all payor types. This program will also lend to a more efficient coding process. Training has been completed on Medicare's new coding methodology, a change from DRGs to MS-DRGs. All of these changes will begin to impact our efficiencies with unbilled accounts receivable.

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This information is intended solely for the use of the Board of Trustees, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 22, 2008

Attachment A

Henry County Medical Center
Summary of Uncorrected Misstatements
June 30, 2008

	Impact of Adjustments on the Financial Statements - Increase (Decrease)					
	Statement of Revenue, Expenses and Changes in Net Assets	**Statement of Net Assets**				
Description	Excess of revenue over expenses	Unrestricted Net Assets	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities
Passed Adjustments:						
To reverse 2007 passed adjustments	81,000	(81,000)	-	-	-	-
To record a distribution receivable related to the Cancer Care Center	-	-	100,000	-	100,000	-
To record patient trust asset and liability accounts	-	-	31,000	-	31,000	-
To record extrapolated accounts payable variance noted in search for unrecorded liabilities	(61,000)	-	-	-	61,000	-
To reverse prepaid assets that were not disbursed until July 2008	-	-	(163,000)	-	(163,000)	-
Total adjustments	20,000	(81,000)	(32,000)	-	29,000	-
Financial statement amounts	2,836,000	52,704,000	17,450,000	58,006,000	7,555,000	15,197,000
Impact as a percentage of financial statement amounts	0.71%	-0.15%	-0.18%	N/A	0.38%	N/A

HENRY COUNTY MEDICAL CENTER
(a component unit of Henry County)

Financial Statements and Supplemental Schedules

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

HENRY COUNTY MEDICAL CENTER
(a component unit of Henry County)

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LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Henry County Medical Center
Paris, Tennessee:

We have audited the accompanying statements of net assets of Henry County Medical Center (Medical Center), a component unit of Henry County, Tennessee, as of June 30, 2008 and 2007, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Henry County Medical Center as of June 30, 2008 and 2007, and the results of its operations and its cash flows for the years 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 a report dated September 22, 2008 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2008 audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Medical Center's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 22, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Henry County Medical Center (HCMC), we offer readers of the financial statements this narrative overview and analysis of the financial performance during the years ended June 30, 2008 and 2007. Please read this analysis in conjunction with the financial statements.

STATISTICAL HIGHLIGHTS

Statistics for the year are mixed. One is growth in several of the hospital's service levels. The other is a reduction in surgery volumes. Chart 1 below is a comparative analysis of statistics.

Chart 1

	FYE 2008	FYE Budget	FYE 2007	FYE 2008 vs. Budget	FYE 2008 vs. FYE 2007
Admissions	4,682	4,778	4,573	(2%)	2%
Average Daily Census	56	54	52	4%	8%
Surgeries	5,809	6,316	6,702	(8%)	(13%)
Emergency Visits	18,042	18,116	18,068	(0%)	(0%)
Outpatient Visits	90,867	78,700	77,000	15%	18%

Growth was the result of increased services in admissions and outpatient visits. The aging of the population in the service area of HCMC promotes gradual growth for the hospital. Recruiting efforts are on-going and are also key to growth. One new physician was brought to the area. A Hospitalist Program was also started at the end of the fiscal year.

Surgery statistics indicate a decrease in surgical services. This is a result of increased competition from an ambulatory surgical center and the loss of one surgeon.

FINANCIAL HIGHLIGHTS

1) Consolidated Operating Revenues increased in FYE 2008 by $1,704,956 or 2% compared to an increase in FYE 2007 of $1,715,465 or 3%. The decrease in operating revenues of FYE 2008 to FYE 2007 is due to a decrease in surgeries and a decrease in census at our nursing home.
2) Consolidated Operating Expenses increased by $2,690,780 or 4% in FYE 2008 compared to an increase in FYE 2007 of 4% or $2,374,483. The increase in FYE 2008 is attributed to salary costs, supplies and depreciation. These cost increases are primarily due to higher patient service volumes, market adjustments for salaries, and capital expenditures.
3) Consolidated Net Income was $2,835,902 for FYE 2008 or 29% below FYE 2007 at $3,944,469. The hospital's net income was $3,284,247 in FYE 2008 versus $3,650,824 in FYE 2007, which is a decrease of 10%. The nursing home's net loss was $(144,006) in FYE 2008 versus a FYE 2007 net income of $633,065, which is a 123% decrease. The EMS Agency's net loss was $(304,339) in FYE 2008 versus a net loss of $(339,420) in FYE 2007, which is a 10% decrease in the loss.

USING THIS REPORT

The financial statements consist of three statements

- A Statement of Net Assets, a Statement of Revenue, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

STATEMENTS OF NET ASSETS AND STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the financial statements will follow and we will answer with this analysis "Is Henry County Medical Center in a better financial position or a worse financial position as a result of this year's activities?" The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets will provide information that will answer this question.

These two statements reflect the net assets and the changes in such. Net assets are defined as the differences between assets and liabilities and are used as a measure of the financial health of our facilities. Over time, increases and decreases in the net assets is one of the indicators as to whether we are improving or deteriorating. Financial profits create directly proportional increases in net assets where financial losses cause equal decrease in net assets.

THE STATEMENT OF CASH FLOWS

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

HCMC'S NET ASSETS

The net assets are the difference between assets and liabilities reported in the Statement of Net Assets on page 14. The net assets increased by $2,835,902 or by 6% in FYE 2008 versus an increase of 9% or $3,944,469 in FYE 2007. This growth indicates a strengthening of the financial health of our facilities. Table 1 below reflects the balance of assets, liabilities, and net assets as of FYE 2008 and FYE 2007. It is important to note that strengthening of net asset balances and financial health is directly driven by the financial profits from operations.

	FYE 2008	FYE 2007
Assets:		
Current Assets	$17,452,383	$17,996,946
Net Property & Equipment	40,853,421	40,227,478
Long Term Investments	7,497,038	6,720,129
Assets Limited to Use	8,556,922	7,628,630
Other Assets	1,096,551	893,342
Total Assets	$75,456,315	$73,466,525
Liabilities:		
Current Liabilities	$7,555,060	$7,552,696
Long-Term Debt	15,197,000	16,045,476
Total Liabilities	$22,752,060	$23,598,172
Net Assets:		
Investment in Capital Assets Net of Debt	$24,807,945	$22,989,290
Unrestricted Net Assets	27,896,310	26,879,063
Total Net Assets	$52,704,255	$49,868,353

The increase in net assets in FYE 2008 can be seen above as increases in our net property, plant, and equipment, assets limited to use (board designated funds), and long term investments. These increases account for most of the usage of our operating profits for FYE 2008.

OPERATING INCOME

The Statement of Revenue, Expenses, and Changes in Net Assets on page 15 and Table 2 below reflect the operating results for FYE 2008 and FYE 2007.

TABLE 2

	FYE 2008	FYE 2007
Operating revenues		
Net patient service revenue	$64,413,202	$62,708,246
Other revenue	1,319,122	1,121,690
Total operating revenue	65,732,324	$63,829,936

Operating expenses:		
Salaries and benefits	$34,558,581	$35,240,682
Medical Supplies and Drugs	15,260,166	12,908,135
Depreciation and amortization	4,317,652	3,845,666
Other operating expense	9,502,281	8,953,417
Total Operating Expenses	$63,638,680	$60,947,900
Operating Income	$2,093,644	$2,882,036
Non Operating Income-Investments	$742,258	$1,062,433
Excess of Revenue over Expenses	$2,835,902	$3,944,469

As can be seen above, we realized a decrease of $1,108,567 or 28% in excess revenues over expenses for FYE 2008 over FYE 2007. While operating revenue increased 2%, total operating expenses increased 4%. These variances are explained in the following paragraphs.

Patient Service net revenues increased 2% during FYE 2008. The increase in patient service revenue is directly attributed to the increase in patient service volumes from admissions and outpatient activity at the hospital.

Other revenue increased $197,432 in FYE 2008. This is due to several revenue streams that are related to the increase in census, such as cafeteria sales.

Salary and benefits costs decreased 2% in FYE 2008. The decrease is a reflection of decreased costs associated with health claims.

Medical supply and drug expenses increased at 17% in FYE 2008. Medical supplies and drug expense as a percentage to total operating revenues is 23% for FYE 2008, and 20% for FYE 2007. Medical supply and drug expense increases are related to the cost increases from vendors and increased drug costs from volume increases in chemotherapy services.

Depreciation and amortization costs increased 12% during FYE 2008. This is due to realization of depreciation on various new equipment and renovations that have been placed into service. The FYE 2008 incurred a capital expenditure program of equipment, information technology, and renovation purchases.

Other operating expenses increased 5% during FYE 2008. This is due to increases in various expense items. Other professional fees increased 15% due to the start up of a Hospitalist program. Utilities increased 7% due to increased costs of fuel and electricity. Repairs and maintenance increased 11% due to new maintenance contracts and repairs to the plant and ambulances. Insurance decreased 8% due to a decrease in experience factors. Interest expense decreased 29% as a result of market changes in variable interest rates.

Bad Debt expenses (recorded as a reduction to net patient service revenue) decreased $821,119 during FYE 2008 or 26% over prior year. Bad Debt expense as a percent of net patient service revenue is 7.3% compared to 8.8% in FYE 2007. During the year, HCMC adopted a new collection plan that consolidates the number of collection agencies and adds an early out payment program.

In summary, total operating expenses increased 4% during FYE 2008; operating revenue increased 2%, resulting in a decrease in operating income of $788,332 or 29% for FYE 2008.

Non-operating income or investment income decreased $320,175 or 30% during FYE 2008. This is a reflection of the economy with a drop in interest rates.

We continue to be fortunate to be in a profitable position where we have seen growth in our services. We continue to work to improve services and productivity, to contain costs and to promote growth and efficiencies.

Due to ongoing pressure in our reimbursement rates, and due to increased costs associated with pharmacy, implantable devices, and increased capital investment for technology and expansion, we expect to be challenged to maintain the current level of profitability in the coming years. We feel that it is imperative that we closely manage our controllable costs in order to maintain or improve our level of profitability.

We hope that in the upcoming years we continue to profit from our operations so that we can meet the capital requirements that stem from the growing healthcare needs of the patient population that we serve.

HCMC CASH FLOW

The Statement of Cash Flows on page 16 provides information regarding the sources and uses of cash during FYE 2008 and FYE 2007. Henry County Medical Center saw a decrease in cash flow in FYE 2008 versus FYE 2007. This is the result of investing in our facility with capital purchases, building an investment program, and continuing to pay our debts.

The net cash provided by operations was $5,460,815 in FYE 2008 versus $7,838,123 in FYE 2007. HCMC used the majority of the cash in the following manner.

	2008
Principal Payment on debt	$1,192,712
Property and Equipment Purchases	$4,988,802
Investment Purchases	$759,060
Decrease in Cash Balance	$(1,000,874)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

At the end of FYE 2008, Henry County Medical Center had $40,853,421 in capital assets net of depreciation. This represents an increase over the FYE 2007 amount of $625,943 or 2%. This increase is due to the purchases of equipment, information technologies, and renovations. The summary of Capital Assets can be found in note 6 on pages 23-24.

Debt:

As of fiscal year end 2008, Henry County Medical Center has $16,045,476 in long-term debt. This is a decrease of $1,192,712 over the FYE 2007 long-term debt balance of $17,238,188. This decrease is the net result from the payment of principal on the three loan agreements. One of the loans was paid in full this year. The summary of long-term debt is in note 7 of the financial statements on pages 24-26.

OTHER ECONOMIC FACTORS

FYE 2007 and FYE 2008 saw unstable economic conditions. The local area is impacted by rising costs of fuel and energy. These types of costs are also cost drivers that in turn increase costs for supplies and food.

We as a community healthcare provider strive to help recruit industry to the area by continuing to offer quality healthcare at an affordable price.

CONTRACTING HCMC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of HCMC finances and to show good stewardship of the resources we possess. If you have any questions regarding this report contact Henry County Medical Center's Chief Financial Officer, at Henry County Medical Center, 301 Tyson Avenue, P.O. Box 1030, Paris, TN 38242.

HENRY COUNTY MEDICAL CENTER
(a component unit of Henry County)

Statements of Net Assets

June 30, 2008 and 2007

Assets

	2008	2007
Current assets:		
Cash and cash equivalents	$ 3,899,663	$ 4,900,537
Assets limited as to use and that are required for current liabilities	1,074,476	1,741,000
Patient accounts receivable, less allowance for uncollectible accounts of $7,184,000 and $6,474,000 in 2008 and 2007, respectively	10,349,107	9,540,701
Inventories	1,685,253	1,601,265
Prepaid expenses and other current assets	443,884	213,443
Total current assets	17,452,383	17,996,946
Property and equipment, net	40,853,421	40,227,478
Long-term investments	7,497,038	6,720,129
Assets limited as to use, excluding assets required for current liabilities	8,556,922	7,628,630
Other assets	1,096,551	893,342
	$ 75,456,315	$ 73,466,525

Liabilities and Net Assets

	2008	2007
Current liabilities:		
Current portion of long-term debt	$ 848,476	$ 1,192,712
Accounts payable	1,927,147	2,385,063
Accrued expenses	4,310,304	3,740,301
Estimated third-party payor settlements	469,133	234,620
Total current liabilities	7,555,060	7,552,696
Long-term debt, excluding current portion	15,197,000	16,045,476
Total liabilities	22,752,060	23,598,172
Net assets:		
Unrestricted:		
Invested in capital assets, net of related debt	24,807,945	22,989,290
Unrestricted net assets	27,896,310	26,879,063
Total unrestricted net assets	52,704,255	49,868,353
	$ 75,456,315	$ 73,466,525

See accompanying notes to the financial statements.

HENRY COUNTY MEDICAL CENTER
(a component unit of Henry County)

Statements of Revenue, Expenses and Changes in Net Assets

Years ended June 30, 2008 and 2007

	2008	2007
Operating revenue:		
Patient service revenue, net of provision for bad debts of $4,706,566 and $5,527,685 in 2008 and 2007, respectively	$ 64,413,202	$ 62,708,246
Other revenue	1,319,122	1,121,690
Total operating revenue	65,732,324	63,829,936
Expenses:		
Salaries and wages	26,641,198	25,788,908
Employee benefits	7,917,383	9,451,774
Supplies	15,260,166	12,908,135
Professional fees	3,006,885	2,713,729
Utilities and telephone	1,434,013	1,341,697
Repairs and maintenance	1,525,178	1,374,403
Leases and rentals	749,353	789,979
Insurance	426,991	350,877
Interest expense	484,184	678,010
Depreciation and amortization	4,317,652	3,845,666
Other expenses	1,488,527	1,317,572
Services tax	387,150	387,150
Total expenses	63,638,680	60,947,900
Operating income	2,093,644	2,882,036
Nonoperating income - investment income	742,258	1,062,433
Excess of revenue over expenses	2,835,902	3,944,469
Net assets at beginning of year	49,868,353	45,923,884
Net assets at end of year	$ 52,704,255	$ 49,868,353

See accompanying notes to the financial statements.

HENRY COUNTY MEDICAL CENTER
(a component unit of Henry County)

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 63,839,309	$ 62,144,520
Payments to suppliers and employees	(57,753,868)	(52,222,164)
Other receipts and payments, net	(624,626)	(2,084,233)
Net cash provided by operating activities	5,460,815	7,838,123
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(1,192,712)	(1,121,760)
Interest paid on long-term debt	(484,184)	(678,010)
Proceeds from disposal of property and equipment	5,079	32,714
Purchases of property and equipment	(4,988,802)	(8,576,257)
Net cash used by capital and related financing activities	(6,660,619)	(10,343,313)
Cash flows from investing activities:		
Distributions from joint venture	477,500	572,500
Purchases of investments	(759,060)	(229,619)
(Increase) decrease in assets limited as to use	(261,768)	2,286,246
Investment income	742,258	1,062,433
Net cash provided by investing activities	198,930	3,691,560
Increase (decrease) in cash and cash equivalents	(1,000,874)	1,186,370
Cash and cash equivalents at beginning of year	4,900,537	3,714,167
Cash and cash equivalents at end of year	$ 3,899,663	$ 4,900,537
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 2,093,644	$ 2,882,036
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation and amortization	4,317,652	3,845,666
Provision for bad debts	4,706,566	5,527,685
Loss on disposal of property and equipment	40,128	37,242
Equity in earnings of joint venture	(495,349)	(449,008)
Interest paid on debt	484,184	678,010
(Increase) decrease in operating assets:		
Patient accounts receivable	(5,514,972)	(6,015,054)
Inventories	(83,988)	(135,925)
Prepaid expenses and other current assets	(230,441)	222,759
Other assets	(203,209)	1,189,649
Increase (decrease) in operating liabilities:		
Accounts payable	(457,916)	34,895
Accrued expenses	570,003	16,600
Estimated third-party payor settlements	234,513	3,568
Net cash provided by operating activities	$ 5,460,815	$ 7,838,123

See accompanying notes to the financial statements.

(1) Nature of operations

Henry County Medical Center (Medical Center) is a political subdivision of Henry County, Tennessee (County). The Medical Center provides comprehensive health care services through the operation of an acute care hospital (Hospital), nursing home (Healthcare Center), home health agency (HHA), and emergency medical services agency (EMS). It is governed by a Board of Trustees under the authority of the County Commission of Henry County, Tennessee and the Henry County Hospital District. The Board of County Commissioners appoints the Board of Trustees of the Medical Center which may not issue debt without the County's approval. Under accounting principles generally accepted in the United States of America, the Medical Center constitutes a component unit of the County for financial reporting purposes.

(2) Summary of significant accounting policies

The Medical Center utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis.

(a) Basis of presentation

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 Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

(b) Inventories

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

(c) Assets limited as to use

Assets limited as to use include cash and cash equivalents designated by the Board of Trustees for future capital improvements and debt repayment, over which the Board retains control and may at its discretion use for other purposes. Investments are reported at fair value.

(d) Cash, cash equivalents and investments

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

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

At June 30, 2008 and 2007, the total carrying value of the Medical Center's cash, cash equivalents and investments, including assets limited as to use, was $20,299,742 and $20,279,788, respectively, and the bank balance was $20,937,337 and $20,869,166, respectively. The entire financial institution balance was covered by federal depository insurance or by collateral held by the trustee in the Medical Center's name.

A fifty percent interest in a joint venture that provides cancer care services in the Henry County area is included in long-term investments on the accompanying balance sheet. This investment is accounted for under the equity method. The investment balance included in long-term investments is $728,357 and $710,508 at June 30, 2008 and 2007, respectively.

(e) Property and equipment

Property and equipment acquisitions are recorded at cost. The Medical Center capitalizes purchases that cost a minimum of $500 and have a useful life greater than two years. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 5-20 years; buildings and improvements 5-40 years; fixed equipment 10-20 years; and major movable equipment 5-20 years.

(f) Patient service revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient service revenue is net of contractual adjustments and policy discounts of approximately $82,000,000 and $69,500,000 for the years ended June 30, 2008 and 2007, respectively. Approximately 44% and 47% of net patient service revenue was from Medicare for the years ended June 30, 2008 and 2007, respectively. Approximately 13% and 15% of net patient service revenue was from Medicaid/TennCare for the years ended June 30, 2008 and 2007, respectively.

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(g) Costs of borrowing

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

(h) Pension plan

Medical Center employees are covered under The Tennessee Consolidated Retirement System, a defined benefit plan. The Medical Center's costs are charged to expense and funded annually.

(i) Compensated absences

The Medical Center provides its full-time employees with paid days off for holiday, vacation, sick, and bereavement absences. The paid days off begin accruing after a three month probationary period and are based on the table which follows. Such days may be taken only after the employee has earned them. All earned days must be taken annually, except that an employee may carry forward up to the normal number of hours worked in a four-week period. Such liabilities have been accrued in the accompanying balance sheet.

Years of service	Days earned per year
0-5	20
5-10	25
10 or more	30

(j) Risk management

The Medical Center is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance is purchased for claims arising from such matters. The Medical Center is self-insured for employee health and workers' compensation claims and judgments as discussed in Note 9.

(k) Net assets

All resources that are not restricted by donors are included in unrestricted net assets. Resources temporarily restricted by donors for specific purposes are reported as temporarily restricted net assets. When specific purposes are achieved, either through passage of a stipulated time or the purpose for restriction is accomplished, they are classified to unrestricted net assets and reported in the statement of revenues, expenses and changes in net assets. Resources temporarily restricted by donors for additions to land, building and equipment are initially reported as temporarily restricted net assets and are transferred to unrestricted net assets when expended. Donor-imposed restrictions which stipulate that the resources be maintained permanently are reported as permanently restricted net assets. Investment income for the permanently restricted net assets is classified as either temporarily restricted or unrestricted based on the intent of the donor. As of June 30, 2008 and 2007, there were no permanently or temporarily restricted net assets.

(l) Income taxes

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

(m) Performance indicator

Excess of revenue over expenses reflected in the accompanying statements of revenue, expenses and changes in net assets is a performance indicator.

(n) Long-lived assets

Management evaluates the recoverability of its investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(o) Use of estimates

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

(3) Third-party reimbursement programs

The Medical Center receives 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 Medical Center's billings at its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. The adjustments resulting from tentative or final settlements to estimated reimbursement amounts resulted in an increase to revenue of approximately $125,000 and $512,000 for the years ended June 30, 2008 and 2007, respectively.

(a) Medicare

The Medical Center is paid for substantially all services rendered to inpatient Medicare program beneficiaries under prospectively determined rates-per-discharge. Those rates vary according to a classification system that is based on clinical, diagnostic, and other factors. The Medical Center is paid for outpatient, home health, emergency medical services and psychiatric services under a Medicare program known as the Ambulatory Payment Classification (APC) system. Under the APC system, outpatient services are classified into APC categories based on standard procedure codes (CPT-4 Codes) for the service provided and payment for the APC categories are determined using prospectively determined Federal payment rates adjusted for geographical area wage differences. The Medical Center receives cash payments at an interim rate with final settlement determined after the Medical Center's submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare Prospective Payment System and the appropriateness of the patients' admissions are subject to validation reviews by the Medicare peer review organization.

(b) Medicaid

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

(c) TennCare

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

(d) Commercial Payors

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

(e) Credit Concentration

The Medical Center grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. At June 30, 2008 and 2007, the Medical Center had net receivables from the Federal Government (Medicare) of approximately $3,500,000 and $3,655,000, respectively, and from Medicaid/TennCare of approximately $1,300,000 and $1,135,000, respectively.

(4) Charity care

Charges excluded from revenue under the Medical Center's charity care policy were $3,046,522 and $2,710,620 for the years ended June 30, 2008 and 2007, respectively.

(5) Inventories

A summary of inventories as of June 30, 2008 and 2007 is as follows:

	2008	2007
Medical stores	$ 109,166	$ 99,993
Dietary	32,131	31,016
Departmental	1,543,956	1,470,256
	$ 1,685,253	$ 1,601,265

(6) Property and equipment

The major classifications and changes in property and equipment as of and for the years ended June 30, 2008 and 2007 are as follows:

	Balance at June 30, 2007	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2008
Land	$ 655,041	$ -	$ -	$ 655,041
Land improvements	1,217,875	-	-	1,217,875
Buildings and improvements	44,465,052	2,112,851	-	46,577,903
Machinery and equipment	25,828,021	5,428,472	(6,756,058)	24,500,435
	72,165,989	7,541,323	(6,756,058)	72,951,254
Less allowance for depreciation and amortization:				
Land improvements	(943,870)	(56,373)	-	(1,000,243)
Buildings and improvements	(15,124,780)	(1,823,449)	2,084	(16,946,145)
Machinery and equipment	(18,714,443)	(2,437,830)	6,708,766	(14,443,507)
	(34,783,093)	(4,317,652)	6,710,850	(32,389,895)
	37,382,896	3,223,671	(45,208)	40,561,359
Construction in progress	2,844,582	3,326,774	(5,879,294)	292,062
	$ 40,227,478	$ 6,550,445	$ (5,924,502)	$ 40,853,421

	Balance at June 30, 2006	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2007
Land	$ 655,041	$ -	$ -	$ 655,041
Land improvements	1,209,775	8,100	-	1,217,875
Buildings and improvements	39,671,196	4,793,856	-	44,465,052
Machinery and equipment	27,218,598	2,398,866	(3,789,443)	25,828,021
	68,754,610	7,200,822	(3,789,443)	72,165,989
Less allowance for depreciation and amortization:				
Land improvements	(868,710)	(75,160)	-	(943,870)
Buildings and improvements	(13,334,570)	(1,790,252)	42	(15,124,780)
Machinery and equipment	(20,451,366)	(1,980,254)	3,717,177	(18,714,443)
	(34,654,646)	(3,845,666)	3,717,219	(34,783,093)
	34,099,964	3,355,156	(72,224)	37,382,896
Construction in progress	1,466,879	6,344,397	(4,966,694)	2,844,582
	$ 35,566,843	$ 9,699,553	$ (5,038,918)	$ 40,227,478

The Medical Center is in the process of constructing various expansions and additions to the existing facilities. The total cost of these projects is expected to be approximately $600,000. No interest costs were capitalized during the years ended June 30, 2008 and June 30, 2007.

(7) Long-term debt

A schedule of changes in the Medical Center's long-term debt as of and for the years ended June 30, 2008 and 2007 is as follows:

	Balance at June 30, 2007	Additions	Reductions	Balance at June 30, 2008	Amounts Due Within One Year
Public Building Authority of the County of Montgomery, TN - Series 1997	$ 1,930,000	$ -	$ (346,000)	$ 1,584,000	$ 365,000
Public Building Authority of the County of Montgomery, TN - Series 2002	14,902,000	-	(451,000)	14,451,000	473,000
Hospital Revenue Bonds - Series 2003	269,712	-	(269,712)	-	-
Other debt	136,476	-	(126,000)	10,476	10,476
	$ 17,238,188	$ -	$ (1,192,712)	$ 16,045,476	$ 848,476

	Balance at June 30, 2006	Additions	Reductions	Balance at June 30, 2007	Amounts Due Within One Year
Public Building Authority of the County of Montgomery, TN - Series 1997	$ 2,258,000	$ -	$ (328,000)	$ 1,930,000	$ 346,000
Public Building Authority of the County of Montgomery, TN - Series 2002	15,331,000	-	(429,000)	14,902,000	451,000
Hospital Revenue Bonds - Series 2003	530,000	-	(260,288)	269,712	269,712
Other debt	240,948	-	(104,472)	136,476	126,000
	$ 18,359,948	$ -	$ (1,121,760)	$ 17,238,188	$ 1,192,712

During September 1997, the Medical Center entered into a loan agreement with the Public Building Authority of the County of Montgomery, Tennessee (Building Authority) whereby, the Building Authority loaned the Medical Center $4,500,000 for the construction, acquisition, and enlargement of its buildings, structures and facilities. As of June 30, 2008 and 2007, the Medical Center had outstanding borrowings of $1,584,000 and $1,930,000, respectively, under this agreement. The loan agreement bears interest at an adjustable rate (1.29% as of June 30, 2008), and is due in annual installments varying between $365,000 and $428,000 through May 25, 2012. The adjustable interest rate is adjusted weekly as determined by the remarketing agent.

During June 2002, the Medical Center entered into an additional loan agreement with the Public Building Authority of the County of Montgomery, Tennessee (Building Authority) whereby, the Building Authority agreed to loan the Medical Center up to $16,500,000 for the construction, acquisition, and enlargement of its buildings, structures, and facilities. As of June 30, 2008 and 2007, the Medical Center had outstanding borrowings of $14,451,000 and $14,902,000, respectively, under this agreement. The loan agreement bears interest at an adjustable rate (1.54% as of June 30, 2008), and is due in annual installments varying between $473,000 and $1,139,000 through May 25, 2027. The adjustable interest rate is adjusted daily as determined by the remarketing agent.

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

During January 2003, the Medical Center issued the Hospital Revenue Bonds, Series 2003 (2003 Revenue Bonds) resulting in gross proceeds of $1,545,000 which were used to advance refund the Hospital Revenue Bonds, Series 1992 (1992 Revenue Bonds) and to pay a portion of the costs of issuance. The 1992 Revenue Bonds were primarily used to fund the costs associated with capital improvements of the Medical Center. Also as a result of the refinancing, the Medical Center was legally released as the obligor of the 1992 Revenue Bonds.

A summary of future maturities and interest of long-term debt as of June 30, 2008 is as follows:

Year	Principal	Estimated Interest	Total Payments
2009	$ 848,476	$ 226,000	$ 1,074,476
2010	882,000	217,000	1,099,000
2011	928,000	205,000	1,133,000
2012	976,000	191,000	1,167,000
2013	575,000	180,000	755,000
2014 - 2018	3,337,000	753,000	4,090,000
2019 - 2023	4,259,000	462,000	4,721,000
2024 - 2027	4,240,000	107,000	4,347,000
	$ 16,045,476	$ 2,341,000	$ 18,386,476

(8) Employee benefit plans

Pension plan

Employees of the Medical Center are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Medical Center participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at http://www.treasury.state.tn.us/tcrs/PS/.

The Medical Center is a political subdivision of the County. The Medical Center's funding policy and schedule of pension plan funding progress have not been included within the financial statements as these amounts are aggregated with the County. The Henry County Annual Financial Report should be read to obtain the aggregated information related to funding policy and schedule of pension plan funding progress. For the years ended June 30, 2008 and 2007, the Medical Center's annual pension costs were approximately $1,570,000 and $1,507,000, respectively.

Deferred compensation plan

Effective January 1, 2002, the Medical Center established a deferred compensation plan (the "Plan") under Section 457 of the Internal Revenue Code. Employees become eligible to participate in the Plan on their first day of employment. The Medical Center does not make any contributions to the Plan nor does it bear any of the administrative costs.

(9) Commitments and contingencies

The Medical Center leases various equipment under operating lease agreements. Rent expense was $749,353 and $789,979 in 2008 and 2007, respectively.

A summary of future minimum payments under these equipment leases as of June 30, 2008 is as follows:

Year		
2009	$	371,000
2010		175,000
2011		174,000
2012		171,000
2013		78,000
	$	969,000

The Medical Center maintains commercial insurance on a claims-made basis for medical malpractice liabilities. Insurance coverages are $300,000 individually and $900,000 in the aggregate annually, which is consistent with current litigation settlement limitations established by the State of Tennessee for governmental entities. Management intends to maintain such coverages in the future. The Medical Center is involved in litigation arising in the ordinary course of business; however, management is of the opinion that insurance coverages are adequate to cover any potential losses on asserted claims. Management is unaware of any incidents which would ultimately result in a loss in excess of the Medical Center's insurance coverages.

The Medical Center is self-insured for a portion of employee medical and other healthcare benefits and workers' compensation claims. The risk of loss retained by the Medical Center is limited to $130,000 and $350,000 per occurrence for employee health and workers' compensation, respectively. The Medical Center has purchased excess insurance to provide coverage for claims in excess of the self-insured retention. Contributions by the Medical Center for employee health are based on actuarial estimates, while contributions for workers' compensation are based on actual claims experience. Claims expense and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include a provision for estimated claims incurred but not reported. Reserves included within accrued expenses related to employee medical and other healthcare benefits amounted to $750,000 and $788,000 in 2008 and 2007, respectively. Reserves included within accrued expenses related to workers' compensation claims amounted to $543,952 and $584,867 in 2008 and 2007, respectively.

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

The Medical Center serves as the guarantor on debt issued to the joint venture in which it holds a fifty percent interest (see Note 2(d)). The balance of the debt as of June 30, 2008 was approximately $295,000.

(10) Functional expenses

The following is a summary of management's functional classification of operating expenses:

	2008	2007
Healthcare services	$ 40,757,977	$ 38,220,233
General and administrative	22,880,703	22,727,667
	$ 63,638,680	$ 60,947,900

HENRY COUNTY MEDICAL CENTER
Hospital and HHA

Schedule of Net Assets Information

June 30, 2008 and 2007

Assets

	2008	2007
Current assets:		
Cash and cash equivalents	$ 2,685,932	$ 3,611,448
Assets limited as to use and that are required for current liabilities	1,074,476	1,741,000
Patient accounts receivable, net	8,649,057	7,653,608
Due from Healthcare Center	2,178,229	2,570,235
Due from EMS Agency	1,534,418	1,242,007
Inventories	1,628,093	1,551,247
Prepaid expenses and other current assets	402,791	169,040
Total current assets	18,152,996	18,538,585
Property and equipment, net	37,934,032	37,068,782
Long-term investments	7,497,038	6,720,129
Assets limited as to use, excluding assets required for current liabilities	8,556,922	7,628,630
Other assets	1,096,551	893,342
	$ 73,237,539	$ 70,849,468

Liabilities and Net Assets

	2008	2007
Current liabilities:		
Current portion of long-term debt	$ 848,476	$ 1,192,712
Accounts payable	1,690,939	2,114,519
Accrued expenses	3,706,737	3,221,134
Estimated third-party payor settlements	469,133	234,620
Total current liabilities	6,715,285	6,762,985
Long-term debt, excluding current portion	15,197,000	16,045,476
Total liabilities	21,912,285	22,808,461
Net assets:		
Unrestricted:		
Invested in capital assets, net of related debt	21,888,556	19,830,594
Unrestricted net assets	29,436,698	28,210,413
Total net assets	51,325,254	48,041,007
	$ 73,237,539	$ 70,849,468

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Hospital and HHA

Schedule of Revenue, Expenses, and Changes in Net Assets Information

Years ended June 30, 2008 and 2007

	2008	2007
Operating revenue:		
Patient service revenue, net of provision for bad debts of $4,397,192 and $5,270,947 in 2008 and 2007, respectively	$ 53,060,369	$ 51,322,407
Management fee revenue	96,000	96,000
Other revenue	1,276,308	1,098,967
Total operating revenue	54,432,677	52,517,374
Expenses:		
Salaries and wages	20,692,642	20,105,127
Employee benefits	5,926,100	7,740,313
Supplies	13,943,396	11,641,161
Professional fees	2,645,805	2,389,395
Utilities and telephone	1,172,996	1,101,817
Repairs and maintenance	1,399,940	1,284,770
Leases and rentals	587,651	642,901
Insurance	341,548	236,953
Interest expense	484,184	678,010
Depreciation and amortization	3,879,265	3,377,259
Other expenses	783,355	646,586
Total expenses	51,856,882	49,844,292
Operating income	2,575,795	2,673,082
Nonoperating income - investment income	708,452	977,742
Excess of revenue over expenses	3,284,247	3,650,824
Net assets at beginning of year	48,041,007	44,390,183
Net assets at end of year	$ 51,325,254	$ 48,041,007

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Healthcare Center

Schedule of Net Assets Information

June 30, 2008 and 2007

Assets

	2008	2007
Current assets:		
Cash and cash equivalents	$ 1,053,459	$ 1,159,902
Patient accounts receivable, net	1,423,207	1,554,811
Inventories	34,602	31,758
Prepaid expenses and other current assets	40,285	43,680
Total current assets	2,551,553	2,790,151
Property and equipment, net	2,743,558	3,004,528
	$ 5,295,111	$ 5,794,679

Liabilities and Net Assets

	2008	2007
Current liabilities:		
Accounts payable	$ 213,229	$ 244,705
Accrued expenses	502,897	434,977
Due to Medical Center	2,178,229	2,570,235
Total current liabilities	2,894,355	3,249,917
Net assets:		
Unrestricted:		
Invested in capital assets, net of related debt	2,743,558	3,004,528
Unrestricted deficit	(342,802)	(459,766)
Total net assets	2,400,756	2,544,762
	$ 5,295,111	$ 5,794,679

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Healthcare Center

Schedule of Revenue, Expenses, and Changes in Net Assets Information

Years ended June 30, 2008 and 2007

	2008	2007
Operating revenue:		
Patient service revenue, net of provision for bad debts of $0 and $6,000 in 2008 and 2007, respectively	$ 9,551,166	$ 9,771,932
Other revenue	42,814	22,723
Total operating revenue	9,593,980	9,794,655
Expenses:		
Salaries and wages	4,810,160	4,596,697
Employee benefits	1,639,643	1,374,113
Supplies	1,258,147	1,203,566
Professional fees	242,017	219,428
Utilities and telephone	236,627	218,898
Repairs and maintenance	46,424	42,429
Leases and rentals	133,382	119,001
Insurance	57,879	89,749
Depreciation and amortization	344,969	360,651
Other expenses	610,383	612,132
Services tax	387,150	387,150
Total expenses	9,766,781	9,223,814
Operating income	(172,801)	570,841
Nonoperating income - investment income	28,795	62,224
Excess of (expenses over revenue)/revenue over expenses	(144,006)	633,065
Net assets at beginning of year	2,544,762	1,911,697
Net assets at end of year	$ 2,400,756	$ 2,544,762

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
EMS Agency

Schedule of Net Deficit Information

June 30, 2008 and 2007

Assets

	2008	2007
Current assets:		
Cash and cash equivalents	$ 160,272	$ 129,187
Patient accounts receivable, net	276,843	332,282
Inventories	22,558	18,260
Prepaid expenses and other current assets	808	723
Total current assets	460,481	480,452
Property and equipment, net	175,831	154,168
	$ 636,312	$ 634,620

Liabilities and Net Deficit

	2008	2007
Current liabilities:		
Accounts payable	$ 22,979	$ 25,839
Accrued expenses	100,670	84,190
Due to Medical Center	1,534,418	1,242,007
Total current liabilities	1,658,067	1,352,036
Net Deficit:		
Unrestricted:		
Invested in capital assets, net of related debt	175,831	154,168
Unrestricted net deficit	(1,197,586)	(871,584)
Total net deficit	(1,021,755)	(717,416)
	$ 636,312	$ 634,620

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
EMS Agency

Schedule of Revenue, Expenses, and Changes in Net Deficit Information

Years ended June 30, 2008 and 2007

	2008	2007
Patient service revenue, net of provision for bad debts of $309,374 and $250,738 in 2008 and 2007, respectively	$ 1,801,667	$ 1,613,907
Expenses:		
Salaries and wages	1,138,396	1,087,084
Employee benefits	351,640	337,348
Supplies	58,623	63,408
Professional fees	119,063	104,906
Utilities and telephone	24,390	20,982
Repairs and maintenance	78,814	47,204
Leases and rentals	28,320	28,077
Insurance	27,564	24,175
Depreciation and amortization	93,418	107,756
Other expenses	94,789	58,854
Management fees	96,000	96,000
Total expenses	2,111,017	1,975,794
Operating loss	(309,350)	(361,887)
Nonoperating income - investment income	5,011	22,467
Excess of expenses over revenues	(304,339)	(339,420)
Net deficit at beginning of year	(717,416)	(377,996)
Net deficit at end of year	$ (1,021,755)	$ (717,416)

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Psychiatric Department

Schedule of Revenue and Expenses Information

Years ended June 30, 2008 and 2007

	2008	2007
Patient service revenue(1)	$ 1,916,417	$ 2,101,500
Operating expenses(1):		
Salaries and wages	556,922	589,833
Employee benefits	40,418	42,406
Consulting	559,281	568,239
Repairs and maintenance	636	-
Rent	2,154	2,154
Telephone	2,268	3,643
Office supplies	2,736	3,336
Medical supplies	3,877	3,765
Pantry	4,621	7,039
Small equipment	2,795	849
Miscellaneous	398	120
Total expenses	1,176,106	1,221,384
Excess of revenue over expenses(1)	$ 740,311	$ 880,116

(1) The above information is summarized from the departmental report. It does not include estimates for contractual adjustments or bad debt expense, nor does it include any allocation of the costs incurred by the general service departments.

See accompanying independent auditors' report.

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Henry County Medical Center
Paris, Tennessee:

We have audited the financial statements of Henry County Medical Center (Medical Center), a component unit of Henry County, Tennessee, as of and for the year ended June 30, 2008, and have issued our report thereon dated September 22, 2008. 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 Medical Center's internal control over financial reporting as a basis for designing our audit 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 Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

A control deficiency exist 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Medical Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Medical Center's financial statements that is more than inconsequential will not be prevented or detected by the Medical Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Medical Center's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Medical Center'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*.

We noted certain matters that we reported to management of Henry County Medical Center in a separate letter dated September 22, 2008.

This report is intended for the information of the Board of Trustees, management, and the State of Tennessee Comptroller of the Treasury, Department of Audit and is not intended to be and should not be used by anyone other than those specified parties.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 22, 2008