MAURY REGIONAL HOSPITAL

Audited Combined Financial Statements
(and Other Information)

Years Ended June 30, 2008 and 2007

MAURY REGIONAL HOSPITAL

Audited Combined Financial Statements

Years Ended June 30, 2008 and 2007

Pershing Yoakley & Associates
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Maury Regional Hospital:

We have audited the accompanying combined balance sheets of Maury Regional Hospital (the Hospital), a component unit of Maury County, Tennessee, as of June 30, 2008 and 2007 and the related combined statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital 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.

As discussed in Note L to the combined financial statements, certain errors resulting in the overstatement of accounts receivable as of June 30, 2006, were discovered by management of the Hospital. Accordingly, the July 1, 2006 net assets have been restated to correct amounts previously reported.

Maury Regional Hospital has not presented a Management Discussion and Analysis (MD&A) as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government Units.* The

MD&A is required supplemental information but not a component of the audited combined financial statements.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 18, 2008 on our consideration of the Hospital's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 controls 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 audits.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
December 18, 2008

MAURY REGIONAL HOSPITAL

Combined Balance Sheets

		June 30,		
		2008		*2007*
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	**14,061,732**	$	12,298,226
Certificates of deposit		**969,801**		3,808,333
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately $34,700,000 in 2008 and $13,800,000 in 2007		**48,781,712**		49,406,307
Inventories		**4,580,724**		4,773,141
Prepaid expenses		**2,274,485**		1,792,711
Estimated amounts due from third party payors		**-**		1,962,454
Other receivables		**2,283,164**		2,111,717
TOTAL CURRENT ASSETS		**72,951,618**		76,152,889
PROPERTY, PLANT AND EQUIPMENT, net		**139,419,500**		142,562,595
OTHER ASSETS				
Debt issue costs, net of accumulated amortization of $129,057 in 2008 and $86,670 in 2007		**340,796**		383,183
Other		**764,713**		777,984
TOTAL OTHER ASSETS		**1,105,509**		1,161,167
TOTAL ASSETS	**$**	**213,476,627**	$	219,876,651

	June 30, 2008	June 30, 2007
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 6,868,038**	$ 6,974,072
Accounts payable and accrued expenses	**9,588,080**	6,400,928
Accrued salaries and wages	**4,109,181**	3,408,819
Accrued compensated absences	**4,056,512**	3,965,522
Accrued workers' compensation	**3,030,304**	3,216,118
Estimated amounts due to third party payors	**142,079**	-
Interest payable	**207,415**	240,545
TOTAL CURRENT LIABILITIES	**28,001,609**	24,206,004
LONG-TERM DEBT		
Bonds payable	**39,415,760**	44,527,790
Other long-term debt	**3,648,183**	4,620,842
	43,063,943	49,148,632
Less current portion	**(6,868,038)**	(6,974,072)
TOTAL LONG-TERM DEBT	**36,195,905**	42,174,560
COMMITMENTS AND CONTINGENCIES - Note J		
MINORITY INTERESTS IN SUBSIDIARIES	**-**	287,516
NET ASSETS		
Invested in capital assets, net of related debt	**96,355,557**	93,413,963
Unrestricted	**52,923,556**	59,794,608
TOTAL NET ASSETS	**149,279,113**	153,208,571
TOTAL LIABILITIES AND NET ASSETS	**$ 213,476,627**	$ 219,876,651

MAURY REGIONAL HOSPITAL

Combined Statements of Revenue, Expenses and Changes in Net Assets

	Year Ended June 30, 2008	Year Ended June 30, 2007
OPERATING REVENUE		
Net patient service revenue, net of estimated provision for bad debts of approximately $30,800,000 in 2008 and $18,300,000 in 2007	**$ 243,273,735**	$ 234,588,321
Other operating revenue	**6,344,038**	6,442,428
TOTAL OPERATING REVENUE	**249,617,773**	241,030,749
OPERATING EXPENSES		
Salaries and employee benefits	**142,593,883**	135,622,119
Supplies	**44,095,003**	38,980,260
Purchased services and professional fees	**19,026,633**	15,859,406
Service contracts	**7,721,646**	5,152,568
Utilities	**4,904,071**	5,161,203
Leases	**3,417,845**	3,029,994
Insurance	**2,380,576**	2,226,357
Other expenses	**12,863,709**	12,638,506
Depreciation and amortization	**16,825,757**	15,157,335
TOTAL OPERATING EXPENSES	**253,829,123**	233,827,748
INCOME (LOSS) FROM OPERATIONS	**(4,211,350)**	7,203,001
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	**569,933**	479,551
Interest income	**241,100**	912,864
Interest expense	**(1,783,133)**	(1,757,717)
Gain (loss) on disposal of equipment	**883,343**	(99,839)
TOTAL NONOPERATING REVENUE (EXPENSES)	**(88,757)**	(465,141)
NET INCOME (LOSS)	**(4,300,107)**	6,737,860
Minority interest in losses of subsidiaries	**370,649**	275,012
CHANGE IN NET ASSETS	**(3,929,458)**	7,012,872
NET ASSETS, BEGINNING OF YEAR, AS RESTATED - Note L	**153,208,571**	146,195,699
NET ASSETS, END OF YEAR	**$ 149,279,113**	$ 153,208,571

MAURY REGIONAL HOSPITAL

Combined Statements of Cash Flows

	Year Ended June 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from patients and insurance programs	**$ 246,002,863**	$ 224,954,475
Payments to vendors for supplies and other	**(91,511,688)**	(84,199,181)
Payments to employees	**(141,988,345)**	(134,185,646)
Other receipts	**5,986,748**	6,178,547
NET CASH PROVIDED BY OPERATING ACTIVITIES	**18,489,578**	12,748,195
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:		
Contributions and grants	569,933	479,551
NET CASH PROVIDED BY NONCAPITAL FINANCIAL ACTIVITIES	**569,933**	479,551
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property, plant and equipment	**(13,443,232)**	(28,629,397)
Proceeds from sale of equipment	**939,265**	120,564
Proceeds from issuance of long-term debt	-	8,910,930
Payments on long-term debt	**(5,917,659)**	(5,541,814)
Interest paid on long-term debt	**(1,816,263)**	(1,755,421)
Debt issue costs	-	(73,518)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(20,237,889)**	(26,968,656)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income received on cash and investments	**241,100**	912,864
Proceeds from sale of certificates of deposit	**4,643,134**	7,576,590
Purchase of certificates of deposit	**(1,804,602)**	(7,603,128)
Purchase of minority shares in joint venture	**(137,748)**	-
Distribution to minority shareholder	-	(144,298)
NET CASH PROVIDED BY INVESTING ACTIVITIES	**2,941,884**	742,028

	Year Ended June 30, 2008	2007
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,763,506**	(12,998,882)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**12,298,226**	25,297,108
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 14,061,732**	$ 12,298,226
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income (loss) from operations	**$ (4,211,350)**	$ 7,203,001
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	**16,825,757**	15,157,335
Estimated provision for uncollectible accounts	**30,799,024**	18,317,991
Changes in:		
Patient accounts receivable	**(30,174,429)**	(29,019,220)
Inventories	**192,417**	(2,486,406)
Prepaid expenses	**(481,774)**	288,426
Estimated amounts due to/from third party payors	**2,104,533**	1,067,383
Other assets	**(357,290)**	(263,881)
Accounts payable and accrued expenses	**3,187,152**	1,047,093
Accrued salaries and wages	**700,362**	405,595
Accrued compensated absences	**90,990**	547,820
Accrued workers' compensation	**(185,814)**	483,058
TOTAL ADJUSTMENTS	**22,700,928**	5,545,194
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 18,489,578**	$ 12,748,195

NON-CASH TRANSACTIONS:

During 2007, the Hospital entered into capital lease obligations totaling $1,043,719 for new equipment.

NOTE A--ORGANIZATION

Maury Regional Hospital (the Hospital) is operated and maintained by Maury County, Tennessee, under authority of and in compliance with the provisions of Chapter 125 of the Tennessee Private Acts of 1996. The federal, state, and local governments participated in the cost of constructing and equipping the Hospital under the Hill-Burton Act. For financial reporting purposes, the Hospital is considered an enterprise fund of Maury County, Tennessee (the County).

The Hospital's primary mission is to provide healthcare services to the residents of southern and middle Tennessee, including Giles, Hickman, Lawrence, Lewis, Marshall, Maury, Perry, Wayne, and Williamson counties.

The combined financial statements include the accounts of the following operating entities:

> *Maury Regional Hospital*, located in Columbia, Tennessee, has been in operation since 1953 and presently has a 275-bed capacity with 20 beds designated for skilled nursing care, and also includes five medical office buildings in its service area.
>
> *Marshall Medical Center* is an acute care hospital, located in Lewisburg, Tennessee, which was acquired by the Hospital in 1995 and, effective January 1, 2005, was designated a Critical Access Hospital with a new licensed bed complement of 25 beds.
>
> *Wayne Medical Center* is an acute care hospital with an 80-bed capacity located in Waynesboro, Tennessee, and has been leased by the Hospital since 1995 (see Note I).

Additionally, the combined financial statements include the following blended component units that provide healthcare services that support the Hospital's mission:

> *Family Health Group (FHG)* is a nonprofit corporation which acquires, owns, operates, and manages physician practices in the Hospital's service area. FHG is 80% owned by the Hospital.
>
> *South Central Heart Group, Inc., Thoratic and Cardiovascular Associates of Tennessee, Inc., and Pulmonary and Critical Care Associates, Inc.* are taxable nonprofit corporations that operate physician practices in the Hospital's service area. The Hospital is the sole member of each practice.
>
> *Maury Regional Ambulatory Care Center, Inc. (the Ambulatory Care Center)* is a nonprofit corporation that provides medical care to non-emergent patients in the Hospital's service area. The Hospital is the sole member of the Ambulatory Care Center.

NOTE --ORGANIZATION - Continued

Maury Regional Surgery Center, LLC (the Surgery Center) operates an ambulatory surgery center in Columbia, Tennessee.

Spring Hill Imaging Center, LLC (the Imaging Center) owns and operates an outpatient center that provides diagnostic and radiology services to patients in the Hospital's service area. The Imaging Center is owned 51% by the Hospital and a minority interest has been recognized which represents the interests of physician and other investors.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The Hospital utilizes the enterprise fund method of accounting. Revenue and expenses are recorded on the accrual basis. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital applies all applicable pronouncements of the Financial Accounting Standards Board (FASB), including pronouncements issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Recently Issued Accounting Pronouncements: The Governmental Accounting Standards Board (GASB) recently issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for years beginning after June 15, 2009 and provides guidance on amortization of intangible assets. Management does not believe the adoption of the statement will materially impact the combined financial statements of the Hospital.

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

Cash and Cash Equivalents: Cash and cash equivalents include investments with original maturities of three months or less when acquired.

Inventories: Inventories are reported at the lower of cost or market, with cost determined by the average cost method.

Patient Accounts Receivable: Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

contractual allowance represents the difference between established billing rates and estimated reimbursement for Medicare, TennCare and other third party payor programs. Current operations are charged with a provision for bad debts estimated based upon the age of the account, prior experience and any unusual circumstances which affect the collectibility. The Hospital's policy does not require collateral or other security for patient accounts receivable and the Hospital routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Property, Plant and Equipment: Property, plant and equipment is reported at cost or fair value at date of gift, if donated. Depreciation is calculated by the straight-line method to allocate the cost of the assets (other than land) over their estimated useful lives which ranges from 3 to 20 years for equipment and 10 to 40 years for buildings and land improvements. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the useful life or the lease term. This amortization is included with depreciation expense and as part of accumulated depreciation in the combined financial statements.

Interest costs incurred on applicable borrowings outstanding during the construction period of capital assets is capitalized as part of the cost of acquiring the asset and is amortized on the same basis as the related capital asset.

Costs of maintenance and repairs are charged to expense when incurred.

Debt Issue Costs: Debt issue costs are capitalized and amortized using the straight-line method over the life of the related obligation.

Compensated Absences: The Hospital's employees earn paid time off at varying rates depending on years of service. An accrual for paid time off is recorded in the period in which the employee earns the right to the compensation.

Net Assets: Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

Net Patient Service Revenue: Net patient service revenue is reported as services are rendered at estimated net realizable amounts, including estimated retroactive revenue adjustments under reimbursement agreements with third party payors. Estimated settlements under third party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. An estimated provision for bad debts is included in net patient service revenue.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Charity Care: The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Operating Activities: The Hospital defines operating activities as reported on the Combined Statements of Revenue, Expenses and Changes in Net Assets as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including contributions and grants, as well as interest income and interest expense, are considered non-operating revenue and expenses.

Income Taxes: The Hospital is a not-for-profit entity in accordance with Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital meets the Internal Revenue Service definition of a governmental unit and is exempt from filing a Form 990 based on Internal Revenue Procedure 95-48.

Reclassifications: Certain 2007 combined financial statement balances have been reclassified to conform with the 2008 presentation.

NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The Hospital has agreements with various third party payors that provide for payments to the Hospital at amounts different from established rates. The difference between the rates charged and the estimated payments from third party payors is recorded as a reduction of gross patient service charges. Revenue for patient service charges have been adjusted to the amounts estimated to be receivable under third party payor arrangements. Amounts recorded under these contractual arrangements are subject to review and final determination by various program intermediaries. Management believes that adequate provision has been made for any adjustments which may result from such reviews. However, due to uncertainties in the estimates, it is at least reasonably possible that management's estimates will change in 2009.

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

Medicare: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid primarily on a prospective basis. These rates vary according to a patient classification system that is based on clinical diagnosis, procedures utilized and other factors. The Medicare program continues to reimburse certain other services on a percentage of cost up to predetermined limits. The Hospital also receives additional payments from the Medicare program for providing services to a disproportionate share of Medicaid (TennCare) and other low income

NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE - Continued

patients. Approximately $9,200,000 and $13,000,000 of net patient accounts receivable are due from the Medicare program at June 30, 2008 and 2007, respectively.

TennCare: The State of Tennessee's Medicaid waiver program (TennCare) provides coverage through several managed care organizations. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts. Approximately $2,500,000 and $3,500,000 of net patient accounts receivable are from the TennCare program at June 30, 2008 and 2007, respectively.

Other: 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, discounts from established charges, and prospectively determined per diem amounts.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue is as follows:

	Year Ended June 30	
	2008	***2007***
Patient service charges	$ 568,550,086	$ 502,940,264
Estimated contractual adjustments	(284,651,562)	(241,238,173)
Estimated provision for bad debts	(30,799,024)	(18,317,991)
Charity care	(9,825,765)	(8,795,779)
	$ 243,273,735	$ 234,588,321

NOTE D--CASH, CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

The Hospital has a policy of investing only in banks participating in the State of Tennessee Collateral Pool or in banks that provide collateral for all deposits. Additionally, the Hospital's deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

NOTE D--CASH, CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT - Continued

At June 30, 2008, the Hospital's cash, cash equivalents and certificates of deposit amounted to $15,031,533. Bank balances for such accounts totaled $15,405,311, a majority of which was insured by the Federal Deposit Insurance Corporation (FDIC) or by the bank's participation in the State of Tennessee's collateral pool. Deposits totaling $1,675,116 are collateralized by securities held by the financial institution in the Hospital's name.

The Hospital holds no investments other than certificates of deposit as of June 30, 2008, which are summarized below:

Interest Rate	*Maturity*		*Amount*
2.55%	July 2008	$	292,654
3.01%	September 2008		250,000
2.55%	December 2008		111,016
2.55%	December 2008		111,016
2.55%	December 2008		70,115
3.75%	January 2009		100,000
5.23%	August 2009		35,000
		$	969,801

NOTE E--PROPERTY, PLANT AND EQUIPMENT

A summary of changes in properties and related accumulated depreciation for the years ended June 30, 2008 and 2007 is as follows:

	Balance July 1, 2007	*Additions/ Transfers*	*Retirements*	*Balance June 30, 2008*
Capital assets being depreciated				
Land improvements	$ 5,348,072	$ 73,064	$ -	$ 5,421,136
Buildings	154,857,860	4,140,152	(80,178)	158,917,834
Equipment	112,042,812	14,482,917	(2,284,881)	124,240,848
Total capital assets being depreciated	272,248,744	18,696,133	(2,365,059)	288,579,818
Less accumulated depreciation for:				
Land improvements	2,960,499	219,441	(721)	3,179,219
Buildings	58,467,274	6,780,350	(37,861)	65,209,763
Equipment	84,266,805	9,530,614	(2,270,555)	91,526,864
Total accumulated depreciation	145,694,578	16,530,405	(2,309,137)	159,915,846
Total capital assets being depreciated, net	126,554,166	2,165,728	(55,922)	128,663,972

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

	Balance July 1, 2007	*Additions/ Transfers*	*Retirements*	*Balance June 30, 2008*
Capital assets not being depreciated				
Land	5,603,125	(560,252)	-	5,042,873
Construction in progress	10,405,304	(4,692,649)	-	5,712,655
Total capital assets not being depreciated	16,008,429	(5,252,901)	-	10,755,528
Total capital assets, net	$ 142,562,595	$ (3,087,173)	$ (55,922)	$ 139,419,500

	Balance July 1, 2006	*Additions/ Transfers*	*Retirements*	*Balance June 30, 2007*
Capital assets being depreciated				
Land improvements	$ 5,320,880	$ 27,192	$ -	$ 5,348,072
Buildings	141,846,533	13,011,327	-	154,857,860
Equipment	105,459,345	8,710,284	(2,126,817)	112,042,812
Total capital assets being depreciated	252,626,758	21,748,803	(2,126,817)	272,248,744
Less accumulated depreciation for:				
Land improvements	2,739,416	221,083	-	2,960,499
Buildings	52,451,589	6,015,685	-	58,467,274
Equipment	77,634,447	8,538,772	(1,906,414)	84,266,805
Total accumulated depreciation	132,825,452	14,775,540	(1,906,414)	145,694,578
Total capital assets being depreciated, net	119,801,306	6,973,263	(220,403)	126,554,166
Capital assets not being depreciated				
Land	5,594,140	8,985	-	5,603,125
Construction in progress	2,489,976	7,915,328	-	10,405,304
Total capital assets not being depreciated	8,084,116	7,924,313	-	16,008,429
Total capital assets, net	$ 127,885,422	$ 14,897,576	$ (220,403)	$ 142,562,595

During 2008 and 2007, the Hospital capitalized interest expense on construction projects totaling approximately $225,000 and $420,000, respectively. Construction in progress at June 30, 2008 consists primarily of facility renovations and software implementation, including capitalized payroll expenses totaling approximately $585,000. Total estimated costs required to complete construction projects in progress as of June 30, 2008 amounted to approximately $1,600,000.

NOTE F--LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	2008	*2007*
Bonds Payable:		
Series 2006B, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 4.00% to 4.25%, maturing over a 7-year period, with the final payment due June 1, 2014.	$ 7,120,000	$ 8,150,000
Series 2006, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 4.00% to 5.00%, maturing over a 15-year period, with the final payment due June 1, 2021.	15,720,000	15,820,000
Series 2005, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 3.00% to 4.00%, maturing over a 15-year period, with the final payment due June 1, 2020.	6,790,000	8,555,000
Series 2004B Refunding, Maury County General Obligation Refunding Bonds issued on behalf of the Hospital, with an interest rate of 5.00%, maturing over a 10-year period, with the final payment due April 1, 2014.	8,605,000	10,655,000
Total bonds payable	38,235,000	43,180,000
Unamortized loss on refunding	(225,682)	(265,509)
Unamortized premiums	1,406,442	1,613,299
Total bonds payable, net of unamortized loss and premiums	39,415,760	44,527,790
Other Long-term Debt:		
Notes payable with interest rates ranging from 5.8% to 8.94% maturing through August, 2014 and secured by equipment and property	972,535	1,547,220
Lines of credit with interest rates of 4.75% and 5.99%, due in 2009 and 2011, maximum available of $775,000 and $170,000, respectively	783,543	811,194

NOTE F--LONG-TERM DEBT - Continued

	2008	2007
Capital lease obligations - see Note H	1,892,105	2,262,428
Total other long-term debt	3,648,183	4,620,842
	43,063,943	49,148,632
Less: current portion	6,868,038	6,974,072
	$ 36,195,905	$ 42,174,560

The Hospital's bonds payable are general obligation bonds of Maury County, Tennessee. The bonds were issued for the purpose of acquiring property and equipment or for the retirement of outstanding bonds and notes and are secured by unlimited ad valorem taxes on all taxable property within the county.

The Series 2006 Bonds maturing on or after June 1, 2017 are subject to redemption prior to maturity at the option of the County on June 1, 2016 or thereafter, at a redemption price of par plus accrued interest. The Series 2004B Refunding Bonds maturing on or after April 1, 2013 are subject to redemption prior to maturity at the option of the County on April 1, 2012 at 102% of par or on April 1, 2013 at 101% of par.

The Hospital's scheduled principal maturities on all long-term debt as of June 30, 2008 (including the capital lease obligations and excluding unamortized premiums and loss on refunding) follows:

Year Ending June 30	*Principal*	*Interest*
2009	$ 6,868,038	$ 1,878,290
2010	5,987,542	1,600,434
2011	4,481,546	1,298,448
2012	4,101,067	1,098,175
2013	4,035,000	917,956
2014-2018	11,529,990	2,336,246
2019-2021	4,880,000	403,099
	$ 41,883,183	$ 9,532,648

NOTE F--LONG-TERM DEBT - Continued

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

	Balance July 1, 2007	*Additions/ Amortization*	*Payments/ Maturities*	*Balance June 30, 2008*	*Amounts Due Within One Year*
Bonds payable	$ 43,180,000	$ -	$ (4,945,000)	$ 38,235,000	$ 5,115,000
Unamortized loss on refunding	(265,509)	39,827	-	(225,682)	-
Unamortized premiums	1,613,299	(206,857)	-	1,406,442	-
Other long-term debt	4,620,842	-	(972,659)	3,648,183	1,753,038
	$ 49,148,632	$ (167,030)	$ (5,917,659)	$ 43,063,943	$ 6,868,038

	Balance July 1, 2006	*Additions/ Amortization*	*Payments/ Maturities*	*Balance June 30, 2007*	*Amounts Due Within One Year*
Bonds payable	$ 39,316,178	$ 8,150,000	$ (4,286,178)	$ 43,180,000	$ 4,945,000
Unamortized loss on refunding	(305,335)	39,826	-	(265,509)	-
Unamortized premiums	1,690,197	(76,898)	-	1,613,299	-
Other long-term debt	4,071,829	1,804,649	(1,255,636)	4,620,842	2,029,072
	$ 44,772,869	$ 9,917,577	$ (5,541,814)	$ 49,148,632	$ 6,974,072

NOTE G--EMPLOYEE BENEFIT PLANS

Defined Benefit Plan: Prior to May 1, 1997, all employees of the Hospital were eligible to participate in the Maury Regional Hospital Retirement Plan (the Plan), a single-employer public retirement system (PERS), accounted for as a separate entity from the Hospital. The purpose of the Plan is to provide retirement, death, and certain other benefits to employees as specified in the Plan. The actuarial method employed to determine contributions to the Plan is the entry age actuarial cost method. Although it has not expressed any intention to do so, the Hospital has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. The Plan issues separate financial statements which may be obtained from the Hospital.

The Plan was amended effective May 1, 1997 to stop accrual of benefit service on April 30, 1997 for participants who made an irrevocable election to participate in the Maury Regional Healthcare System 403(b) Plan on May 1, 1997. As of May 1, 2007, 177 participants are earning future service accruals. Employees hired after May 1, 1997, are not eligible to participate in the Plan.

NOTE G--EMPLOYEE BENEFIT PLANS - Continued

During 2007, the Hospital early adopted the provisions of GASB Statement No. 50, *Pension Disclosures* which expands disclosure requirements for defined benefit plans. This Statement requires the Hospital to disclose the Plan's funded status using the entry age actuarial cost method.

Defined Benefit Plan Funding Policy: Voluntary contributions may not be made by participants. The Hospital's contributions are based on an actuarially determined rate.

The Hospital's annual pension cost and net pension obligation to the Plan for 2008 and 2007 was zero. The annual required contribution for the current year was determined as part of the May 1, 2008, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions used included the following:

- 8.00% investment rate of return
- projected salary increases ranging from 4.0% to 7.5% per year
- amortization method - level dollar amount

Three-Year Trend Information

Fiscal Year	*Annual Required Contribution*	*Percentage Contributed*	*Pension Obligation*
April 30, 2006	$ -	100.00%	$ -
April 30, 2007	-	100.00%	-
April 30, 2008	-	100.00%	-

A schedule of funding progress for the Plan follows:

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded AAL (UAAL) (b-a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as a % of Covered Payroll (b-a)/c*
May 1, 2006*	$ 39,895,500	$ 39,895,500	-	100.0%	7,487,836	0.0%
May 1, 2007**	42,314,713	39,373,681	(2,941,032)	107.5%	6,877,594	42.8%
May 1, 2008**	43,136,990	41,325,850	(1,811,140)	104.4%	6,645,042	27.3%

*An unfunded actuarial accrued liability is not identified under the aggregate actuarial cost method utilized prior to 2007.
**Entry age cost method utilized for determining the unfunded actuarial liability.

NOTE G--EMPLOYEE BENEFIT PLANS - Continued

Defined Contribution Plan: Effective May 1, 1997, the Hospital implemented a defined contribution plan which includes a 403(b) feature and an employer matching provision and covers substantially all hourly and salaried employees. Voluntary contributions may be made by the participants as a percentage of annual compensation not to exceed Internal Revenue Service limits. The Hospital's contribution consists of a base contribution of 3% of annual covered compensation and a matching contribution equal to 50% of the employees' first 5% of annual compensation contributed. The Hospital's total contributions for the years ended June 30, 2008 and 2007 amounted to approximately $3,500,000 and $3,200,000, respectively.

NOTE H-- LEASES

Capital Leases: The Hospital leases medical equipment under various capital lease agreements with interest rates ranging from 4.70% to 7.88%. A summary of the leased equipment, which is included in property, plant and equipment, at June 30 is as follows:

	2008	*2007*
Equipment acquired under capital leases	$ 2,738,423	$ 2,731,291
Less accumulated amortization	(1,192,624)	(760,858)
	$ 1,545,799	$ 1,970,433

The following is a schedule of the future minimum lease payments required under capital leases as of June 30, 2008:

Year Ending June 30,	
2009	$ 616,053
2010	520,445
2011	451,758
2012	281,607
2013	196,369
Total minimum lease payments	2,066,232
Amount representing interest	(174,127)
Present value of minimum lease payments	$ 1,892,105

Operating Leases: The Hospital also rents office space and equipment under various non-cancelable operating lease agreements with varying terms. Rent expense under operating lease agreements

NOTE H--LEASES - Continued

totaled approximately $3,420,000 and $3,030,000 for the years ended June 30, 2008 and 2007, respectively. Future minimum lease commitments for all significant non-cancelable operating leases are as follows:

Year Ending June 30,		
2009	$	2,379,353
2010		1,976,407
2011		1,785,847
2012		1,215,200
2013		512,214
Thereafter		267,600
	$	8,136,621

Leases with Physicians: The Hospital leases office space in its medical office buildings to physicians under non-cancelable operating leases with varying terms.

Rental income under these lease agreements totaled approximately $1,400,000 and $1,350,000 for the years ended June 30, 2008 and 2007, respectively. Future minimum lease commitments to the Hospital for all significant non-cancelable operating leases are as follows:

Year Ending June 30,		
2009	$	1,050,149
2010		647,953
	$	1,698,102

NOTE I--LEASED HEALTHCARE FACILITIES

Effective July 1, 2005, the Hospital entered into the first of two 5-year renewal options provided under a lease arrangement with the Board of Trustees of Wayne County General Hospital for the operation of several Wayne County healthcare facilities, including the county hospital, nursing home, ambulance service and medical office buildings. The lease also extends to all equipment, improvements, fixtures and related personal property. The annual lease expense under the first renewal consists of a base rent of $175,000 and an annual capital improvement commitment of $175,000. The annual lease expense under the second renewal will increase to an annual base rent of $200,000 and an annual capital improvement commitment of $200,000 beginning July 1, 2010. The Hospital may terminate the lease at any time upon 180 days notice and the payment of $500,000.

NOTE J--COMMITMENTS AND CONTINGENCIES

General Liability Claims: The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Hospital.

Malpractice Liability Claims: The Hospital is also subject to claims and suits arising in the ordinary course of business from services provided to patients. Losses against the Hospital are limited by the Tennessee Governmental Tort Liability Act to $350,000 ($250,000 in 2007) for injury or death per occurrence and $700,000 ($600,000 in 2007) in the aggregate. However, claims against healthcare practitioners are not subject to these limits. The Hospital maintains professional liability insurance on a claims made basis with limits of $1,000,000 per occurrence and $3,000,000 in the aggregate with a retention of $250,000 per claim. The Hospital has estimated and recorded a liability for reported claims totaling approximately $1,210,000 and $550,000 at June 30, 2008 and 2007, respectively. In certain of these actions, damages may be sought which exceed the Hospital's insurance coverage. In management's opinion, the Hospital is currently not a party to any proceeding, the ultimate resolution of which will have a material adverse effect on the Hospital's results of operations or financial condition. The Hospital has not estimated any liability for incurred but not reported claims.

Workers' Compensation Claims: The Hospital is covered for workers' compensation claims through an insurance policy with a deductible of $500,000 per claim. Management has recorded an accrual for the estimated liability related to claims reported as of June 30, 2008 and 2007. The Hospital has not estimated any liability for incurred but not reported claims.

Healthcare Benefits: The Hospital maintains a partially self-insured healthcare plan to provide reimbursement for covered expenses incurred as a result of illness or injury to covered employees and dependants. Stop-loss insurance is purchased for annual claims per individual exceeding $150,000 with a life time maximum per individual totaling $850,000. The Hospital has estimated and recorded a liability for healthcare claims incurred but not yet reported totaling approximately $1,270,000 and $600,000 at June 30, 2008 and 2007.

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse statutes and under the provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers.

NOTE J--COMMITMENTS AND CONTINGENCIES - Continued

Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

NOTE K--FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that book value approximates fair value for the majority of the Hospital's financial assets and liabilities. The fair value of bonds payable, which are general obligation bonds of Maury County, are not considered practicable to estimate.

NOTE L--PRIOR PERIOD ADJUSTMENT

During 2007, certain errors resulting in the overstatement of patient accounts receivable and net assets as of June 30, 2006, were discovered by management of the Hospital. A prior period adjustment was made to reduce net assets by $9,250,000 as of July 1, 2006 to correct these errors. Further, during 2008, management determined that amounts recorded as receivables at June 30, 2006 related to contractual disputes were contingent in nature and should not have been recorded. A prior period adjustment was made to reduce net assets by $1,200,000 as of July 1, 2006.

Other Information

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

To the Board of Trustees of
Maury Regional Hospital:

We have audited the combined financial statements of Maury Regional Hospital (the Hospital) as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated December 18, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audits, 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization'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 organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 2008-1 and 2008-2 to be significant deficiencies.

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 organization's internal control.

Our consideration of 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 and, accordingly, would not necessarily disclose all significant deficiencies that might be material weaknesses. However, we consider the deficiency described in the accompanying schedule of findings as item 2008-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's combined financial statements are free of material misstatement we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits 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 the Hospital in a separate letter dated December 18, 2008.

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

Pershing Yoakley & Associates PC

Knoxville, Tennessee
December 18, 2008

Section I - Findings Related to the Financial Statement Audit as Required to be Reported in Accordance with Government Auditing Standards

Item 2008-1: Significant Deficiency in Internal Control

Finding: As noted during 2007, the Hospital does not prepare consolidated financial statements for interim or yearend reporting purposes.

Recommendation: We recommend that the Hospital produce consolidated financial statements on at least a quarterly basis for Board review.

Management's Response: The Hospital will produce consolidated financial statements on a quarterly basis for Board review.

Item 2008-2: Material Weakness in Internal Control

Finding: During our 2007 and 2008 audits, we identified certain adjustments to management's estimates which were material to the financial statements. Those adjustments indicate a significant deficiency in the financial statement estimation process related to contractual and bad debt allowances for patient accounts receivable that we consider to be a material weakness.

Recommendation: We recommend that management review its financial statement estimation processes for allowances on patient accounts receivable and refine these processes to increase the resources devoted to preparation, review and monitoring of critical financial statement estimates.

Management's Response: Management will increase the resources devoted to preparation, review and monitoring of critical financial statement estimates. The focus shall address the contractual and bad debt allowances estimates by considering all payers, providing a reserve for all patient accounts receivable based on the aging of those accounts receivable, and include a review of cash received in the current fiscal year that is for accounts in the prior fiscal year. In addition, a third-party has been engaged to perform agreed upon procedures at regular intervals throughout FY 2009 related to the adequacy of contractual and bad debt reserves.

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To Management and the Board of Trustees
of Maury Regional Hospital:

In planning and performing our audit of the combined financial statements of Maury Regional Hospital (the Hospital) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered and issued our report dated December 18, 2008 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report was to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be significant deficiency in internal control:

CONSOLIDATED FINANCIAL REPORTING

As previously noted, the Hospital does not prepare consolidated financial statements for interim or yearend reporting purposes. The various reporting entities prepare monthly financial information for the use of management, the Board of Trustees or an oversight committee. However, in certain instances, this information includes only operating results and no, or limited, information related to financial position. Additionally, the amounts and balances related to transactions with other divisions or related entities are not easily identified.

The lack of complete consolidated financial information may impact both management and the Board's ability to efficiently and effectively make informed decisions. We recommend that the Hospital produce consolidated financial statements on at least a quarterly basis for Board review.

* * * * * * * * * *

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 entity's internal control. We believe that the following deficiency constitutes a material weakness.

ACCOUNTING ESTIMATES

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make a number of accounting estimates and judgments that significantly affect the financial statements. Estimates are made by management based on their knowledge of past and current events and assumptions about conditions expected to exist and courses of action expected to be taken. The process for determining an estimate should include identifying relevant factors, accumulating sufficient and reliable data, developing assumptions and then determining the estimate. Internal controls relevant to determining reasonable estimates should include preparation of the estimates by qualified personnel, adequate review and approval of estimates by the appropriate level of authority, consideration as to whether the estimate is consistent with operational plans of the entity, and comparison of prior year estimates to subsequent results.

During both our prior year and current year audits, we identified certain adjustments to management's estimates which were material to the financial statements. Those adjustments indicate a significant deficiency in the financial statement estimation process related to contractual and bad debt allowances for patient accounts receivable that we consider to be a material weakness.

We recommend that management review its financial statement estimation process for allowances on patient accounts receivable and refine these processes to increase the resources devoted to preparation, review and monitoring of critical financial statement estimates.

* * * * * * * * * *

During our audit, we also became aware of the following matters that are opportunities for strengthening internal controls or operating efficiency but are not considered significant deficiencies or material weaknesses.

REVENUE CYCLE

With the conversion to the new information system on July 1, 2007, the Hospital's ability to timely bill and collect for patient services has been significantly impacted and the Hospital has experienced a substantial increase in patient accounts receivable. We recommend the Hospital immediately dedicate the resources needed to ensure that the billing and collection process is functioning efficiently and effectively with the new clinical and financial reporting systems, and that patient accounts are being worked, cash is being collected appropriately or accounts are timely written off when not collectible. Additionally, the Hospital should establish goals and benchmarks to continuously monitor these processes.

CONSOLIDATION OF FINANCIAL REPORTING

Currently, most divisions within the Hospital's system process and report financial information independently of each other. In many cases, financial reporting personnel at the various entities are performing duplicate procedures. Additionally, due to the limited number of financial personnel at some entities, the internal controls over financial reporting are limited.

We recommend that management consider the potential efficiencies that could be gained by consolidating certain areas of financial reporting such as business office, reimbursement, payroll, and accounts payable. Consolidating certain financial reporting functions will also increase consistency and the effectiveness in reporting accounting transactions and estimates and improve the Hospital's ability to prepare accurate consolidated financial statements as discussed above. Additionally, consolidating processes may strengthen internal controls and allow for better allocation of financial personnel resources.

CASH RECONCILIATIONS

During the current year audit, we noted that a reconciliation of the main depository account was not completed until a number of months after year end. Considering the magnitude and volume of transactions in this account, reconciling items could have a significant impact on the reported cash balances. We recommend that all cash reconciliations be performed and reviewed on a timely basis.

ACCOUNTING FOR LEASES

During 2007 and 2008, various entities within the health system entered into lease agreements for medical equipment. All of these leases were reported as operating leases although several of them met the criteria for being reported as a capital lease. An analysis of the lease terms had not been performed to consider the proper reporting criteria. While this rarely has a material impact on the amount of expense reported, both capital assets and lease obligations could be materially understated. We recommend that management develop a formalized process for reviewing all significant leases for proper reporting as an operating or capital lease.

RETIREMENT PLAN REGULATION CHANGES

The Hospital sponsors a 403(b) retirement plan that provides for salary deferral and employer contributions for a significant portion of the Hospital's employees. Historically, a 403(b) plan has been exempt from certain reporting requirements. Recently, the Department of Labor issued new regulations eliminating an exemption of 403(b) plans from Form 5500 filing and audit requirements. Therefore, beginning with the 2009 plan year, the Hospital's 403(b) plan may be subject to these new reporting requirements which may also require an audit of the plan.

During our audit of the Hospital, we noted that management is considering changing the third party administrator of the 403(b) plan. Such a change may significantly impact the Hospital's ability to obtain historical participant information that would be needed if the plan meets the audit requirement under the new reporting regulations. We recommend that management carefully consider the impact of the new regulations related to the 403(b) plan before making changes in to the plan administration and begin the process immediately of preparing for any additional reporting requirements.

* * * * * * * * * *

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

Pershing Yoakley & Associates, PC

Knoxville, Tennessee
December 18, 2008