

**HENRY COUNTY MEDICAL CENTER
BOARD OF TRUSTEES MEETING**

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

September 24, 2009



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, 2009, and have issued our report thereon dated September 18, 2009. 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

As stated in our engagement letter dated May 15, 2009, 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 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Medical Center are described in Note 2 to the consolidated financial statements. As described in Note 2(e), the Medical Center adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS 157”) during 2009 which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. 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.

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 18, 2009.

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, 2008 through the date of this letter.

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.

Latterini Black Morgan & Casiri, PC

Brentwood, Tennessee
September 18, 2009

**Henry County Medical Center
Summary of Uncorrected Misstatements
June 30, 2009**

Attachment A

	Impact of Adjustments on the Financial Statements - Increase (Decrease)					
	Statement of Revenue, Expenses and Changes in Net Assets	Statement of Net Assets				
<u>Description</u>	Excess of expenses over revenue	Unrestricted Net Assets	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities
Passed Adjustments:						
To reverse 2008 passed adjustments	(61,000)	(61,000)	-	-	-	-
To adjust deferred revenue	(44,000)	-	44,000	-	-	-
To record reserve for workers' compensation receivable	240,000	-	-	(240,000)	-	-
To adjust for Nursing Home advance payments recouped by the state of Tennessee during 2009	(315,000)	315,000	-	-	-	-
To record expected error in pharmacy inventory	40,000	-	(40,000)	-	-	-
Total adjustments	(140,000)	254,000	4,000	(240,000)	-	-
Financial statement amounts	456,000	52,248,000	15,398,000	58,214,000	7,049,000	14,315,000
Impact as a percentage of financial statement amounts	-30.70%	0.49%	0.03%	-0.41%	N/A	N/A

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

Financial Statements and Supplemental Schedules

June 30, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008, 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 18, 2009 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 2009 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 18, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2009 and 2008. Please read this analysis in conjunction with the financial statements.

STATISTICAL HIGHLIGHTS

Statistics for the year are mixed. One is the continued growth in outpatient services. The other is a reduction in admissions, surgeries, and emergency visits. Table 1 below is a comparative analysis of statistics.

Table 1

Statistics

	FYE <u>2009</u>	FYE <u>Budget</u>	FYE <u>2008</u>	FYE 2009 vs.	
				<u>Budget</u>	<u>FYE 2008</u>
Admissions	4,490	5,584	4,682	(20%)	(4%)
Average Daily Census	54	67	56	(19%)	(4%)
Surgeries	5,176	5,836	5,809	(11%)	(11%)
Emergency Visits	17,432	18,492	18,042	(6%)	(3%)
Outpatient Visits	101,625	91,430	90,867	11%	12%

Growth is the result of services in 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. Seven new physicians were brought to the area. The Hospitalist Program started at the end of the previous fiscal year is now fully implemented.

Admissions, surgeries, and emergency visits indicate a decrease. This is a result of current economic conditions resulting from the recession and increased competition from an ambulatory surgical center.

FINANCIAL HIGHLIGHTS

Table 2

Consolidated Financial Highlights (000s)

	<u>FYE 2009</u>	<u>FYE 2008</u>	<u>Change \$</u>	<u>Change %</u>
Operating Revenues	65,776	65,732	44	0.1%
Operating Expenses	66,526	63,639	2,887	4.5%
Net Income	(456)	2,836	(3,292)	(116%)

- 1) Consolidated Operating Revenues increased in FYE 2009 by \$44,000 or 0.1% compared to an increase in FYE 2008 of \$1,704,000 or 2%. The decrease in the operating revenues rate of FYE 2009 to FYE 2008 is due to a decrease in admissions and surgeries due to the overall recessionary state of the economy.
- 2) Consolidated Operating Expenses increased by \$2,887,000 or 4.5% in FYE 2009 compared to an increase in FYE 2008 of 4% or \$2,690,000. The primary increase in FYE 2009 operating expenses is attributed to salary and benefit costs, professional fees for the hospitalist program, increases in utilities costs, and depreciation. These cost increases are due to growth in program services, pay increases, health benefits increases, and capital expenditures.
- 3) Consolidated Net Loss was (\$456,000) for FYE 2009 or (116%) below FYE 2008 gain of \$2,836,000. The hospital's net loss was (\$375,000) in FYE 2009 versus a gain \$3,284,000 in FYE 2008, which is a decrease of 111%. The nursing home's net income was \$179,000 in FYE 2009 versus a FYE 2008 net loss of (\$144,000), which is a 224% increase. The EMS Agency's net loss was (\$260,000) in FYE 2009 versus a net loss of \$(304,000) in FYE 2008, which is a 14% 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.

The 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 decreased by \$456,000 or by 0.9% in FYE 2009 versus an increase of 6% or \$2,836,000 in FYE 2008. This decline indicates a usage of assets from the facilities. Table 1 below reflects the balance of assets, liabilities, and net assets as of FYE 2009 and FYE 2008. It is important to note that strengthening of net asset balances and financial health is directly driven by the financial profits from operations as well as the investments of assets.

	FYE <u>2009</u>	FYE <u>2008</u>
Assets:		
Current Assets	\$15,398,001	\$17,452,383
Net Property & Equipment	39,214,904	40,853,421
Long Term Investments	7,521,838	7,497,038
Assets Limited to Use	10,701,000	8,556,922
Other Assets	776,277	1,096,551
 Total Assets	 \$73,612,020	 \$75,456,315
Liabilities:		
Current Liabilities	\$7,048,891	\$7,555,060
Long-Term Debt	14,315,000	15,197,000
 Total Liabilities	 \$21,363,891	 \$22,752,060
Net Assets:		
Investment in Capital		
Assets Net of Debt	\$24,017,904	\$24,807,945
Unrestricted Net Assets	28,230,225	27,896,310
 Total Net Assets	 \$52,248,129	 \$52,704,255

The decrease in net assets in FYE 2009 can be seen above as decreases in current assets (cash and accounts receivable), net property, plant, and equipment, and other assets. These decreases account for most of the impact on our operations for FYE 2009.

OPERATING INCOME

The Statement of Revenue, Expenses, and Changes in Net Assets on page 15 and Table 3 below reflect the operating results for FYE 2009 and FYE 2008.

TABLE 3

	<u>FYE 2009</u>	<u>FYE 2008</u>
Operating revenues		
Net patient service revenue	\$64,463,729	\$64,413,202
Other revenue	1,312,581	1,319,122
	<hr/>	<hr/>
Total operating revenue	<u>65,776,310</u>	<u>65,732,324</u>
Operating expenses:		
Salaries and benefits	\$36,245,095	\$34,558,581
Medical Supplies and Drugs	14,764,321	15,260,166
Depreciation and amortization	4,642,244	4,317,652
Other operating expense	10,874,565	9,502,281
	<hr/>	<hr/>
Total Operating Expenses	<u>\$66,526,225</u>	<u>\$63,638,680</u>
Operating Income	(\$749,915)	\$2,093,644
Non Operating Income- Investments	\$293,789	\$742,258
Excess of Revenue over Expenses	(\$456,126)	\$2,835,902

As can be seen above, we realized a decrease of \$3,292,028 or 116% in excess revenues over expenses for FYE 2009 over FYE 2008. While operating revenue increased 0.1%, total operating expenses increased 4.5%. These variances are explained in the following paragraphs.

Patient Service net revenues increased only 0.1% during FYE 2009. This slight increase in patient service revenue is directly attributed to the increase in patient service volumes from outpatient activity at the hospital, and the declines in volumes from inpatient and surgical activities.

Other revenue decreased slightly by 0.5% in FYE 2009. This is due to several revenue streams that are related to census, such as cafeteria sales.

Salary and benefits costs increased 5% in FYE 2009. The increase is a reflection of 3% salary increase and a 10% increase in benefits costs associated with health claims.

Medical supply and drug expenses decreased at 3% in FYE 2009. Medical supplies and drug expense as a percentage to total operating revenues is 22% for FYE 2009, and 23% for FYE 2008. Medical supply and drug expense decreases are related to the decreases in volumes and management's cost control measures.

Depreciation and amortization costs increased 8% during FYE 2009. This is due to realization of depreciation on various new equipment and renovations that have been placed into service. The FYE 2009 incurred a capital expenditure program of equipment, information technology, and renovation purchases.

Other operating expenses increased 14% during FYE 2009. This is due to increases in various expense items. Other professional fees increased 36% due to the start up of a Hospitalist program. Utilities increased 9% due to increased costs of fuel and electricity. Repairs and maintenance increased 10% due to new maintenance contracts and repairs to the plant and ambulances. Insurance increased 28% due to the addition of the hospitalist program and a physician practice. Interest expense decreased 58% as a result of market changes in variable interest rates.

Bad Debt expenses (recorded as a reduction to net patient service revenue) decreased \$103,952 during FYE 2009 or 2% over prior year. Bad Debt expense as a percent of net patient service revenue is 7.1% compared to 7.3% in FYE 2008. During the year, HCMC implemented a new collection plan that consolidates the number of collection agencies and adds an early out payment program.

In summary, total operating expenses increased 4.5% during FYE 2009; operating revenue increased 0.1%, resulting in a decrease in operating income of (\$2,843,559) or (136%) for FYE 2009.

Non-operating income or investment income decreased \$448,469 or 60% during FYE 2009. This is a reflection of the economy with a drop in interest rates.

We continue to be fortunate to have assets to invest in physician recruiting and growth programs such as the hospitalist program. 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. We feel that it is imperative that we closely manage our controllable costs in order to improve our level of profitability.

We hope that in the upcoming years we build 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 2009 and FYE 2008. Henry County Medical Center saw a decrease in cash flow in FYE 2009 versus FYE 2008. This is the result of investing in our facility with capital purchases, investing in our community with health services programs, building an investment program, and continuing to pay our debts.

The net cash provided by operations was \$4,222,325 in FYE 2009 versus \$5,460,815 in FYE 2008. HCMC used the majority of the cash in the following manner.

	<u>FYE 2009</u>
Principal Payment on debt	\$848,476
Property and Equipment Purchases	\$3,032,844
Investment Purchases	\$131,045
Decrease in Cash Balance	\$(1,145,740)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

At the end of FYE 2009, Henry County Medical Center had \$39,214,904 in capital assets net of depreciation. This represents a decrease over the FYE 2008 amount of \$1,638,517 or 4%. This decrease is due to spending approximately \$2 million less in capital purchases than in years past. The summary of Capital Assets can be found in note 6 on pages 24-25.

Debt:

As of fiscal year end 2009, Henry County Medical Center has \$15,197,000 in long-term debt. This is a decrease of \$848,476 over the FYE 2008 long-term debt balance of \$16,045,476. This decrease is the net result from the payment of principal on the loan agreements. The summary of long-term debt is in note 7 of the financial statements on pages 25-26.

OTHER ECONOMIC FACTORS

FYE 2008 and FYE 2009 saw unstable economic conditions. The local area is impacted by the global recession and the rising costs of recruiting physicians, and the rising cost of materials like drugs, implants, fuel and energy. The global recession impacts patients spending abilities and the differing of health care needs.

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.



Board of Trustees

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Management Officials

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Phone: 731-644-8537

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Ed Ledden, Human Resources Director, Assistant Administrator
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Sandra Ray, HCHC Administrator
Phone: 731-644-8912

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

Statements of Net Assets

June 30, 2009 and 2008

	<u>Assets</u>	
	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 2,753,923	\$ 3,899,663
Assets limited as to use and that are required for current liabilities	941,000	1,074,476
Patient accounts receivable, less allowance for uncollectible accounts of \$6,679,000 and \$7,184,000 in 2009 and 2008, respectively	9,262,023	10,349,107
Inventories	1,834,917	1,685,253
Prepaid expenses and other current assets	<u>606,138</u>	<u>443,884</u>
Total current assets	15,398,001	17,452,383
Property and equipment, net	39,214,904	40,853,421
Long-term investments	7,521,838	7,497,038
Assets limited as to use, excluding assets required for current liabilities	10,701,000	8,556,922
Other assets	<u>776,277</u>	<u>1,096,551</u>
	<u>\$ 73,612,020</u>	<u>\$ 75,456,315</u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Current portion of long-term debt	\$ 882,000	\$ 848,476
Accounts payable	2,057,166	1,927,147
Accrued expenses	3,964,321	4,310,304
Estimated third-party payor settlements	<u>145,404</u>	<u>469,133</u>
Total current liabilities	7,048,891	7,555,060
Long-term debt, excluding current portion	<u>14,315,000</u>	<u>15,197,000</u>
Total liabilities	<u>21,363,891</u>	<u>22,752,060</u>
Net assets:		
Unrestricted:		
Invested in capital assets, net of related debt	24,017,904	24,807,945
Unrestricted net assets	<u>28,230,225</u>	<u>27,896,310</u>
Total unrestricted net assets	<u>52,248,129</u>	<u>52,704,255</u>
	<u>\$ 73,612,020</u>	<u>\$ 75,456,315</u>

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenue:		
Patient service revenue, net of provision for bad debts of \$4,602,614 and \$4,706,566 in 2009 and 2008, respectively	\$ 64,463,729	\$ 64,413,202
Other revenue	<u>1,312,581</u>	<u>1,319,122</u>
Total operating revenue	<u>65,776,310</u>	<u>65,732,324</u>
Expenses:		
Salaries and wages	27,514,276	26,641,198
Employee benefits	8,730,819	7,917,383
Supplies	14,764,321	15,260,166
Professional fees	4,101,202	3,006,885
Utilities and telephone	1,564,525	1,434,013
Repairs and maintenance	1,681,892	1,525,178
Leases and rentals	805,806	749,353
Insurance	546,441	426,991
Interest expense	203,887	484,184
Depreciation and amortization	4,642,244	4,317,652
Other expenses	1,583,664	1,488,527
Services tax	<u>387,148</u>	<u>387,150</u>
Total expenses	<u>66,526,225</u>	<u>63,638,680</u>
Operating income (loss)	(749,915)	2,093,644
Nonoperating income - investment income	<u>293,789</u>	<u>742,258</u>
Excess of revenue over expenses (expenses over revenue)	(456,126)	2,835,902
Net assets at beginning of year	<u>52,704,255</u>	<u>49,868,353</u>
Net assets at end of year	<u>\$ 52,248,129</u>	<u>\$ 52,704,255</u>

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 65,227,084	\$ 63,839,309
Payments to suppliers and employees	(60,304,058)	(57,753,868)
Other receipts and payments, net	<u>(700,701)</u>	<u>(624,626)</u>
Net cash provided by operating activities	<u>4,222,325</u>	<u>5,460,815</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(848,476)	(1,192,712)
Interest paid on long-term debt	(203,887)	(484,184)
Proceeds from disposal of property and equipment	-	5,079
Purchases of property and equipment	<u>(3,032,844)</u>	<u>(4,988,802)</u>
Net cash used by capital and related financing activities	<u>(4,085,207)</u>	<u>(6,660,619)</u>
Cash flows from investing activities:		
Distributions from joint venture	565,000	477,500
Purchases of investments	(131,045)	(759,060)
Increase in assets limited as to use	(2,010,602)	(261,768)
Investment income	<u>293,789</u>	<u>742,258</u>
Net cash provided (used) by investing activities	<u>(1,282,858)</u>	<u>198,930</u>
Decrease in cash and cash equivalents	(1,145,740)	(1,000,874)
Cash and cash equivalents at beginning of year	<u>3,899,663</u>	<u>4,900,537</u>
Cash and cash equivalents at end of year	<u>\$ 2,753,923</u>	<u>\$ 3,899,663</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (749,915)	\$ 2,093,644
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation and amortization	4,642,244	4,317,652
Provision for bad debts	4,602,614	4,706,566
Loss on disposal of property and equipment	29,117	40,128
Equity in earnings of joint venture	(458,755)	(495,349)
Interest paid on debt	203,887	484,184
(Increase) decrease in operating assets:		
Patient accounts receivable	(3,515,530)	(5,514,972)
Inventories	(149,664)	(83,988)
Prepaid expenses and other current assets	(162,254)	(230,441)
Other assets	320,274	(203,209)
Increase (decrease) in operating liabilities:		
Accounts payable	130,019	(457,916)
Accrued expenses	(345,983)	570,003
Estimated third-party payor settlements	<u>(323,729)</u>	<u>234,513</u>
Net cash provided by operating activities	<u>\$ 4,222,325</u>	<u>\$ 5,460,815</u>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

June 30, 2009 and 2008

(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.

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

Notes to the Financial Statements

June 30, 2009 and 2008

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, 2009 and 2008, the total carrying value of the Medical Center's cash, cash equivalents and investments, including assets limited as to use, was \$21,230,649 and \$20,299,742, respectively, and the bank balance was \$21,518,093 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 \$687,112 and \$728,357 at June 30, 2009 and 2008, respectively.

(e) Fair value measurements

The Medical Center adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157"). This pronouncement provides guidance for using fair value to measure assets and liabilities. It also expands disclosures required for fair value measurements. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below.

Basis of Fair Value Measurement

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;**
- Level 2 - Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;**
- Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.**

HENRY COUNTY MEDICAL CENTER
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Notes to the Financial Statements

June 30, 2009 and 2008

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. While a majority of the Medical Center's assets whose use is limited and investments are cash equivalents, the Medical Center has approximately \$5,000,000 in certificates of deposit that would be classified as Level 2 under the hierarchy above.

(f) 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.

(g) 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 \$92,000,000 and \$85,000,000 for the years ended June 30, 2009 and 2008, respectively. Approximately 45% and 44% of net patient service revenue was from Medicare for the years ended June 30, 2009 and 2008, respectively. Approximately 12% and 13% of net patient service revenue was from Medicaid/TennCare for the years ended June 30, 2009 and 2008, 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.

(h) 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.

(i) 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.

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

Notes to the Financial Statements

June 30, 2009 and 2008

(j) 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.

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

(k) 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.

(l) 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, 2009 and 2008, there were no permanently or temporarily restricted net assets.

(m) 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.

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

Notes to the Financial Statements

June 30, 2009 and 2008

(n) Performance indicator

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

(o) 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.

(p) 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.

(q) Events occurring after reporting date

The Medical Center has evaluated events and transactions that occurred between June 30, 2009 and September 18, 2009, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(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 \$314,000 and \$125,000 for the years ended June 30, 2009 and 2008, respectively.

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

Notes to the Financial Statements

June 30, 2009 and 2008

(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.

HENRY COUNTY MEDICAL CENTER
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Notes to the Financial Statements

June 30, 2009 and 2008

(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, 2009 and 2008, the Medical Center had net receivables from the Federal Government (Medicare) of approximately \$3,100,000 and \$3,500,000, respectively, and from Medicaid/TennCare of approximately \$1,050,000 and \$1,300,000, respectively.

(4) Charity care

Charges excluded from revenue under the Medical Center's charity care policy were \$2,746,189 and \$3,046,522 for the years ended June 30, 2009 and 2008, respectively.

(5) Inventories

A summary of inventories as of June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Medical stores	\$ 96,186	\$ 109,166
Dietary	34,486	32,131
Departmental	<u>1,704,245</u>	<u>1,543,956</u>
	<u>\$ 1,834,917</u>	<u>\$ 1,685,253</u>

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

Notes to the Financial Statements

June 30, 2009 and 2008

(6) Property and equipment

The major classifications and changes in property and equipment as of and for the years ended June 30, 2009 and 2008 are as follows:

	<u>Balance at June 30, 2008</u>	<u>Additions/ Transfers</u>	<u>Placed in Service/ Retirements</u>	<u>Balance at June 30, 2009</u>
Land	\$ 655,041	\$ -	\$ -	\$ 655,041
Land improvements	1,217,875	-	-	1,217,875
Buildings and improvements	46,577,903	870,874	-	47,448,777
Machinery and equipment	<u>24,500,435</u>	<u>2,324,515</u>	<u>(307,905)</u>	<u>26,517,045</u>
	<u>72,951,254</u>	<u>3,195,389</u>	<u>(307,905)</u>	<u>75,838,738</u>
Less allowance for depreciation and amortization:				
Land improvements	(1,000,243)	(44,073)	-	(1,044,316)
Buildings and improvements	(16,946,145)	(1,764,071)	-	(18,710,216)
Machinery and equipment	<u>(14,443,507)</u>	<u>(2,834,100)</u>	<u>278,788</u>	<u>(16,998,819)</u>
	<u>(32,389,895)</u>	<u>(4,642,244)</u>	<u>278,788</u>	<u>(36,753,351)</u>
	40,561,359	(1,446,855)	(29,117)	39,085,387
Construction in progress	<u>292,062</u>	<u>1,364,629</u>	<u>(1,527,174)</u>	<u>129,517</u>
	<u>\$ 40,853,421</u>	<u>\$ (82,226)</u>	<u>\$ (1,556,291)</u>	<u>\$ 39,214,904</u>
	<u>Balance at June 30, 2007</u>	<u>Additions/ Transfers</u>	<u>Placed in Service/ Retirements</u>	<u>Balance at June 30, 2008</u>
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	<u>25,828,021</u>	<u>5,428,472</u>	<u>(6,756,058)</u>	<u>24,500,435</u>
	<u>72,165,989</u>	<u>7,541,323</u>	<u>(6,756,058)</u>	<u>72,951,254</u>
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	<u>(18,714,443)</u>	<u>(2,437,830)</u>	<u>6,708,766</u>	<u>(14,443,507)</u>
	<u>(34,783,093)</u>	<u>(4,317,652)</u>	<u>6,710,850</u>	<u>(32,389,895)</u>
	37,382,896	3,223,671	(45,208)	40,561,359
Construction in progress	<u>2,844,582</u>	<u>3,326,774</u>	<u>(5,879,294)</u>	<u>292,062</u>
	<u>\$ 40,227,478</u>	<u>\$ 6,550,445</u>	<u>\$ (5,924,502)</u>	<u>\$ 40,853,421</u>

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

Notes to the Financial Statements

June 30, 2009 and 2008

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 \$202,000. No interest costs were capitalized during the years ended June 30, 2009 and June 30, 2008.

(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, 2009 and 2008 is as follows:

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2009</u>	<u>Amounts Due Within One Year</u>
Public Building Authority of the County of Montgomery, TN					
- Series 1997	\$ 1,584,000	\$ -	\$ (365,000)	\$ 1,219,000	\$ 385,000
Public Building Authority of the County of Montgomery, TN					
- Series 2002	14,451,000	-	(473,000)	13,978,000	497,000
Other debt	<u>10,476</u>	<u>-</u>	<u>(10,476)</u>	<u>-</u>	<u>-</u>
	<u>\$ 16,045,476</u>	<u>\$ -</u>	<u>\$ (848,476)</u>	<u>\$ 15,197,000</u>	<u>\$ 882,000</u>

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2008</u>	<u>Amounts Due Within One Year</u>
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	<u>136,476</u>	<u>-</u>	<u>(126,000)</u>	<u>10,476</u>	<u>10,476</u>
	<u>\$ 17,238,188</u>	<u>\$ -</u>	<u>\$ (1,192,712)</u>	<u>\$ 16,045,476</u>	<u>\$ 848,476</u>

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

Notes to the Financial Statements

June 30, 2009 and 2008

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, 2009 and 2008, the Medical Center had outstanding borrowings of \$1,219,000 and \$1,584,000, respectively, under this agreement. The loan agreement bears interest at an adjustable rate (0.48% as of June 30, 2009), and is due in annual installments varying between \$385,000 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, 2009 and 2008, the Medical Center had outstanding borrowings of \$13,978,000 and \$14,451,000, respectively, under this agreement. The loan agreement bears interest at an adjustable rate (0.39% as of June 30, 2009), and is due in annual installments varying between \$497,000 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.

A summary of future maturities and interest of long-term debt as of June 30, 2009 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Estimated Interest</u>	<u>Total Payments</u>
2010	\$ 882,000	\$ 59,000	\$ 941,000
2011	928,000	55,000	983,000
2012	976,000	50,000	1,026,000
2013	575,000	47,000	622,000
2014	604,000	45,000	649,000
2015 - 2019	3,504,000	186,000	3,690,000
2020 - 2024	4,472,000	109,000	4,581,000
2025 - 2028	<u>3,256,000</u>	<u>19,000</u>	<u>3,275,000</u>
	<u>\$ 15,197,000</u>	<u>\$ 570,000</u>	<u>\$ 15,767,000</u>

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

Notes to the Financial Statements

June 30, 2009 and 2008

(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, 2009 and 2008, the Medical Center's annual pension costs were approximately \$1,616,000 and \$1,570,000, 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.

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

Notes to the Financial Statements

June 30, 2009 and 2008

(9) Commitments and contingencies

The Medical Center leases various equipment under operating lease agreements. Rent expense was \$805,806 and \$749,353 in 2009 and 2008, respectively.

A summary of future minimum payments under these equipment leases as of June 30, 2009 is as follows:

<u>Year</u>	
2010	\$ 336,000
2011	335,000
2012	293,000
2013	83,000
2014	<u>5,000</u>
	\$ <u>1,052,000</u>

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 \$800,000 and \$750,000 in 2009 and 2008, respectively. Reserves included within accrued expenses related to workers' compensation claims amounted to \$584,867 and \$543,952 in 2009 and 2008, respectively.

HENRY COUNTY MEDICAL CENTER
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June 30, 2009 and 2008

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 Centers for Medicare and Medicaid Services ("CMS") have implemented a Recovery Audit Contractors ("RAC") program. The purpose of the program is to reduce improper Medicare payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. Management expects the Medical Center to be subject to audit during 2010 or 2011. While management believes that all Medicare billings are proper and adequate support is maintained, certain aspects of Medicare billing, coding and support are subject to interpretation and may be viewed differently by the RAC auditors. As the amount of any recovery is unknown, management has not recorded any reserves related to the RAC audit 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, 2009 was approximately \$250,000.

(10) Functional expenses

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

	<u>2009</u>	<u>2008</u>
Healthcare services	\$ 42,879,175	\$ 40,757,977
General and administrative	<u>23,647,050</u>	<u>22,880,703</u>
	<u>\$ 66,526,225</u>	<u>\$ 63,638,680</u>

**HENRY COUNTY MEDICAL CENTER
Hospital and HHA**

Schedule of Net Assets Information

June 30, 2009 and 2008

	<u>Assets</u>	
	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 1,257,643	\$ 2,685,932
Assets limited as to use and that are required for current liabilities	941,000	1,074,476
Patient accounts receivable, net	7,643,239	8,649,057
Due from Healthcare Center	1,706,581	2,178,229
Due from EMS Agency	1,752,949	1,534,418
Inventories	1,786,870	1,628,093
Prepaid expenses and other current assets	<u>545,805</u>	<u>402,791</u>
Total current assets	15,634,087	18,152,996
Property and equipment, net	36,679,138	37,934,032
Long-term investments	7,521,838	7,497,038
Assets limited as to use, excluding assets required for current liabilities	10,701,000	8,556,922
Other assets	<u>776,277</u>	<u>1,096,551</u>
	<u>\$ 71,312,340</u>	<u>\$ 73,237,539</u>
 <u>Liabilities and Net Assets</u> 		
Current liabilities:		
Current portion of long-term debt	\$ 882,000	\$ 848,476
Accounts payable	1,793,799	1,690,939
Accrued expenses	3,225,962	3,706,737
Estimated third-party payor settlements	<u>145,404</u>	<u>469,133</u>
Total current liabilities	6,047,165	6,715,285
Long-term debt, excluding current portion	<u>14,315,000</u>	<u>15,197,000</u>
Total liabilities	<u>20,362,165</u>	<u>21,912,285</u>
Net assets:		
Unrestricted:		
Invested in capital assets, net of related debt	21,482,138	21,888,556
Unrestricted net assets	<u>29,468,037</u>	<u>29,436,698</u>
Total net assets	<u>50,950,175</u>	<u>51,325,254</u>
	<u>\$ 71,312,340</u>	<u>\$ 73,237,539</u>

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenue:		
Patient service revenue, net of provision for bad debts of \$4,242,900 and \$4,397,192 in 2009 and 2008, respectively	\$ 52,574,839	\$ 53,060,369
Management fee revenue	96,000	96,000
Other revenue	<u>1,286,527</u>	<u>1,276,308</u>
Total operating revenue	<u>53,957,366</u>	<u>54,432,677</u>
Expenses:		
Salaries and wages	21,303,283	20,692,642
Employee benefits	6,724,915	5,926,100
Supplies	13,408,034	13,943,396
Professional fees	3,871,165	2,645,805
Utilities and telephone	1,282,022	1,172,996
Repairs and maintenance	1,542,006	1,399,940
Leases and rentals	703,513	587,651
Insurance	448,729	341,548
Interest expense	203,887	484,184
Depreciation and amortization	4,226,108	3,879,265
Other expenses	<u>905,460</u>	<u>783,355</u>
Total expenses	<u>54,619,122</u>	<u>51,856,882</u>
Operating income (loss)	(661,756)	2,575,795
Nonoperating income - investment income	<u>286,677</u>	<u>708,452</u>
Excess of revenue over expenses (expenses over revenue)	(375,079)	3,284,247
Net assets at beginning of year	<u>51,325,254</u>	<u>48,041,007</u>
Net assets at end of year	<u>\$ 50,950,175</u>	<u>\$ 51,325,254</u>

See accompanying independent auditors' report.

**HENRY COUNTY MEDICAL CENTER
Healthcare Center**

Schedule of Net Assets Information

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,338,790	\$ 1,053,459
Patient accounts receivable, net	1,303,281	1,423,207
Inventories	34,268	34,602
Prepaid expenses and other current assets	<u>41,515</u>	<u>40,285</u>
Total current assets	2,717,854	2,551,553
Property and equipment, net	<u>2,421,980</u>	<u>2,743,558</u>
	\$ 5,139,834	\$ 5,295,111
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 219,818	\$ 213,229
Accrued expenses	633,694	502,897
Due to Medical Center	<u>1,706,581</u>	<u>2,178,229</u>
Total current liabilities	<u>2,560,093</u>	<u>2,894,355</u>
Net assets:		
Unrestricted:		
Invested in capital assets, net of related debt	2,421,980	2,743,558
Unrestricted net assets (deficit)	<u>157,761</u>	<u>(342,802)</u>
Total net assets	<u>2,579,741</u>	<u>2,400,756</u>
	\$ 5,139,834	\$ 5,295,111

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenue:		
Patient service revenue, net of provision for bad debts of \$0 in 2009 and 2008, respectively	\$ 10,012,348	\$ 9,551,166
Other revenue	<u>26,054</u>	<u>42,814</u>
Total operating revenue	<u>10,038,402</u>	<u>9,593,980</u>
Expenses:		
Salaries and wages	5,018,868	4,810,160
Employee benefits	1,624,963	1,639,643
Supplies	1,287,611	1,258,147
Professional fees	158,474	242,017
Utilities and telephone	254,176	236,627
Repairs and maintenance	48,333	46,424
Leases and rentals	74,900	133,382
Insurance	60,303	57,879
Depreciation and amortization	342,863	344,969
Other expenses	607,730	610,383
Services tax	<u>387,148</u>	<u>387,150</u>
Total expenses	<u>9,865,369</u>	<u>9,766,781</u>
Operating income (loss)	173,033	(172,801)
Nonoperating income - investment income	<u>5,952</u>	<u>28,795</u>
Excess of revenue over expenses (expenses over revenue)	178,985	(144,006)
Net assets at beginning of year	<u>2,400,756</u>	<u>2,544,762</u>
Net assets at end of year	<u>\$ 2,579,741</u>	<u>\$ 2,400,756</u>

See accompanying independent auditors' report.

**HENRY COUNTY MEDICAL CENTER
EMS Agency**

Schedule of Net Deficit Information

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 157,490	\$ 160,272
Patient accounts receivable, net	315,503	276,843
Inventories	13,779	22,558
Prepaid expenses and other current assets	<u>18,818</u>	<u>808</u>
Total current assets	505,590	460,481
Property and equipment, net	<u>113,786</u>	<u>175,831</u>
	<u>\$ 619,376</u>	<u>\$ 636,312</u>
 <u>Liabilities and Net Deficit</u>		
Current liabilities:		
Accounts payable	\$ 43,549	\$ 22,979
Accrued expenses	104,665	100,670
Due to Medical Center	<u>1,752,949</u>	<u>1,534,418</u>
Total current liabilities	<u>1,901,163</u>	<u>1,658,067</u>
Net Deficit:		
Unrestricted:		
Invested in capital assets, net of related debt	113,786	175,831
Unrestricted net deficit	<u>(1,395,573)</u>	<u>(1,197,586)</u>
Total net deficit	<u>(1,281,787)</u>	<u>(1,021,755)</u>
	<u>\$ 619,376</u>	<u>\$ 636,312</u>

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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Patient service revenue, net of provision for bad debts of \$359,714 and \$309,374 in 2009 and 2008, respectively	\$ <u>1,876,542</u>	\$ <u>1,801,667</u>
Expenses:		
Salaries and wages	1,192,125	1,138,396
Employee benefits	380,941	351,640
Supplies	68,676	58,623
Professional fees	71,563	119,063
Utilities and telephone	28,327	24,390
Repairs and maintenance	91,553	78,814
Leases and rentals	27,393	28,320
Insurance	37,409	27,564
Depreciation and amortization	73,273	93,418
Other expenses	70,474	94,789
Management fees	<u>96,000</u>	<u>96,000</u>
Total expenses	<u>2,137,734</u>	<u>2,111,017</u>
Operating loss	(261,192)	(309,350)
Nonoperating income - investment income	<u>1,160</u>	<u>5,011</u>
Excess of expenses over revenues	(260,032)	(304,339)
Net deficit at beginning of year	<u>(1,021,755)</u>	<u>(717,416)</u>
Net deficit at end of year	<u>\$ (1,281,787)</u>	<u>\$ (1,021,755)</u>

See accompanying independent auditors' report.

**HENRY COUNTY MEDICAL CENTER
Psychiatric Department**

Schedule of Revenue and Expenses Information

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Patient service revenue(1)	\$ <u>1,980,230</u>	\$ <u>1,916,417</u>
Operating expenses(1):		
Salaries and wages	631,701	556,922
Employee benefits	45,125	40,418
Consulting	589,338	559,281
Repairs and maintenance	174	636
Rent	2,154	2,154
Telephone	847	2,268
Office supplies	3,348	2,736
Medical supplies	3,867	3,877
Pantry	5,942	4,621
Small equipment	489	2,795
Miscellaneous	<u>948</u>	<u>398</u>
Total expenses	<u>1,283,933</u>	<u>1,176,106</u>
Excess of revenue over expenses(1)	\$ <u><u>696,297</u></u>	\$ <u><u>740,311</u></u>

- (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.



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, 2009, and have issued our report thereon dated September 18, 2009. 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*.

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.

Lattimer Black Morgan & Co., PC

Brentwood, Tennessee
September 18, 2009