

**Decatur County General Hospital
BOARD OF TRUSTEES MEETING**

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

October 5, 2009



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

Report to the Board of Trustees

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**To the Board of Trustees
Decatur County General Hospital
Parsons, Tennessee:**

We have audited the financial statements and supplemental schedule of Decatur County General Hospital (the "Hospital"), a component unit of Decatur County, Tennessee, for the year ended June 30, 2009, and have issued our report thereon dated September 29, 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 April 20, 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 Hospital. 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 April.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Hospital are described in Note 2 to the financial statements. As described in Note 2(m), the Hospital adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS 157") related to financial assets and liabilities during 2009. The adoption of SFAS 157 did not have a significant impact on the Hospital's financial statements. We noted no transactions entered into by the Hospital 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. We evaluated the key factors and assumptions used to develop the depreciable lives of property and equipment, allowance for bad debts, contractual adjustments, and third-party settlements and had discussions with management in determining that the balances are reasonable in relation to the financial statements of the Hospital taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant 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 (Attachment A) 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. The attached schedule (Attachment B) summarizes misstatements noted by us during the audit which were corrected by management.

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 29, 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 Hospital'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 Hospital'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 Hospital 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.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 29, 2009

**Decatur County General Hospital
Summary of Uncorrected Misstatements
June 30, 2009**

Attachment A

Description	Impact of Adjustments on Financial Statements - Increase (Decrease)					
	Statement of Revenue, Expenses and Changes in Net Assets	Statement of Net Assets				
	Excess of expenses over revenue	Unrestricted Net Assets	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities
Passed Adjustments:						
To reverse the 2008 passed adjustments.	(27,000)	(27,000)	-	-	-	-
To reclassify checks older than one year.	-	-	13,000	-	13,000	-
To record capital assets which were expensed.	(5,000)	-	-	5,000	-	-
To extrapolate error noted in search for unrecorded liabilities.	33,000	-	-	-	33,000	-
To correct unknown variance in bank reconciliation	(40,000)	-	40,000			
Total adjustments	(39,000)	(27,000)	53,000	5,000	46,000	-
Financial statement amounts	412,000	210,000	2,207,000	2,599,000	2,800,000	1,796,000
Impact as a percentage of financial statement amounts	-9.5%	-12.9%	2.4%	0.2%	1.6%	N/A

**Decatur County General Hospital
Summary of Corrected Misstatements
June 30, 2009**

Attachment B

<u>Description</u>	Impact of Adjustments on Financial Statements - Increase (Decrease)					
	Statement of Revenue, Expenses and Changes in Net Assets	Statement of Net Assets				
	Excess of expenses over revenue	Unrestricted Net Assets	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities
Adjustments:						
To roll net assets from 2008 to 2009.	(29,000)	(29,000)	-	-	-	-
To record capital assets previously expensed.	(35,000)	-	-	35,000	-	-
To record additional expense relating to prepaid software licenses and past service costs.	14,000	-	(14,000)	-	-	-
To adjust property and equipment for items disposed of during 2009.	4,000	-	-	(4,000)	-	-
To reclassify accrued payroll recorded as accounts payable and cash.	-	-	(170,000)	-	(170,000)	-
To record cost report income and remove the credit from a contractual reserve account.	(165,000)	-	165,000	-	-	-
To adjust settlement accounts for cost report estimates	(103,000)	-	103,000	-	-	-
To record an additional contractual allowance.	230,000	-	(230,000)	-	-	-
To record capital assets previously expensed (PBC)	(22,000)	-	-	22,000	-	-
Total adjustments	(106,000)	(29,000)	(146,000)	53,000	(170,000)	-
Financial statement amounts	412,000	210,000	2,207,000	2,599,000	2,800,000	1,796,000
Impact as a percentage of financial statement amounts	-25.7%	-13.8%	-6.6%	2.0%	-6.1%	N/A



**To the Board of Trustees
Decatur County General Hospital
Parsons, Tennessee**

In planning and performing our audit of the financial statements of Decatur County General Hospital (the Hospital) for the year ended June 30, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, during our audit we became aware of the following matters which are an opportunity for strengthening internal controls and operating efficiency.

Account Reconciliations

We noted that reconciliations were not being prepared, reviewed and approved on all general ledger accounts. In instances where reconciliations were being prepared, we noted certain instances where the reconciliation was not being reviewed and approved by an appropriate member of management. The lack of such procedures resulted in audit adjustments in a number of areas. We recommend that reconciliations of all major account balances be prepared on a monthly basis. In addition, we recommend that the account reconciliations be reviewed and approved on a regular basis by an appropriate member of management to help ensure the completion of the reconciliations and resolution of reconciling items in a timely manner.

Net Assets

We noted that net assets as of June 30, 2009 did not agree to the ending net assets as of June 30, 2008 less the excess of expenses over revenue for the year ended June 30, 2009. This variance was approximately \$30,000 and resulted from an entry to net assets and an unknown variance between the prior year's audited financial statements and the Hospital's general ledger. We recommend that management not record any manual journal entries to net assets and net assets should be reconciled on a monthly basis.

Accounting Policies and Procedures Manual

The Hospital should develop an accounting policies and procedures manual. A well-devised manual can help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, that records are produced in the form desired by management and that appropriate levels of management review and formally approve transactions. A good manual should also aid in the training of new employees and possibly allow for delegation of certain accounting functions which management currently performs.

It will take time and effort for management to develop a manual. However, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management may discover procedures that can be eliminated or improved to make the process more efficient and effective.

We noted that certain policies and procedures were developed and adopted during the year and subsequent to our fieldwork. We recommend that management continue to identify those processes that are critical to the operation of the Hospital and develop formal policies and procedures related to these areas. We also recommend that policies and procedures be reviewed on an annual basis and be modified as necessary.

Inventory Record Keeping

We noted that when inventory is counted, certain extensions are calculated manually. We recommend that all the inventory detail be maintained electronically, such as in an excel spreadsheet, so that mathematical errors are less likely to occur. Using an electronic media will also reduce administrative time associated with compiling the inventory detail.

Credit Card Policy

During our compliance testing, we noted that the Hospital did not have a credit card policy relating to the use of gas cards for the ambulance service and the hospital maintenance truck. The Hospital should develop a credit card policy documenting proper authorization and use of the gas cards. This will help prevent potential inappropriate use of the Hospital's assets and add additional controls over credit card expenses. We noted that such a policy was adopted effective August 1, 2009.

Accounts Receivable Credit Balances

We noted that accounts receivable credit balances do not age properly in the system reports. All credit balances are reflected in the current category rather than the correct aging bucket based on the original credit date. Credit balances approximate 5% of gross accounts receivable as of June 30, 2009 and 2008. We recommend that the Hospital consult with its accounting system vendor to determine if a report that ages credit balances can be created. If not, we recommend that a separate schedule be maintained which reflects proper aging of credit balances. We also recommend that the hospital continually work the credit balances and issue refunds as necessary in order to comply with the Tennessee Unclaimed Property Act.

Medicare In-Patient Billing

We noted that the Hospital is billing for Medicare in-patient services at gross and calculating an estimated contractual allowance based on historical information. Due to Medicare in-patient services being reimbursed at predetermined rates, the Hospital has the ability to record the contractual adjustment at the time of billing. In order to eliminate the estimation process associated with recording contractual allowance reserves related to Medicare in-patients, we recommend that the Hospital bill for all Medicare in-patient services net of contractual adjustments at the time of billing.

Property and Equipment

We noted that in certain instances the property and equipment system was not updated to reflect property and equipment transactions. We also noted that certain property and equipment transactions were recorded in the property and equipment system but recorded as an expense on the general ledger. This resulted in potential audit adjustments, certain of which management elected to record as of June 30, 2009. We recommend that management update the property and equipment system and all related general ledger accounts as property and equipment transactions occur throughout the year. We also recommend that the property and equipment subsidiary ledger be reconciled to the general ledger on a monthly basis.

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

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 29, 2009

DECATUR COUNTY GENERAL HOSPITAL
(a component of Decatur County)

Financial Statements and Supplemental Schedule

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)



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

DECATUR COUNTY GENERAL HOSPITAL
(a component unit of Decatur County)

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

INDEPENDENT AUDITORS' REPORT

**The Board of Trustees
Decatur County General Hospital
Parsons, Tennessee:**

We have audited the accompanying statements of net assets of Decatur County General Hospital (the Hospital), a component unit of Decatur 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 the Hospital'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 audits 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 Decatur County General Hospital 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 29, 2009 on our consideration of the Hospital'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 schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 Hospital'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 & Carr, PC

Brentwood, Tennessee
September 29, 2009

Management Discussion and Analysis (Unaudited)

Our discussion and analysis of Decatur County General Hospital's (DCGH) financial performance provides an overview of the Hospital's financial activities for the year ended June 30, 2009. However, please refer to the financial statements for an in depth understanding of this analysis.

The past fiscal year of DCGH can be explained in a single word, "turnaround". For the fiscal year ended June 30, 2007, DCGH lost \$784,510. As of June 30, 2008, DCGH lost an additional \$1,488,212 for that year. We posted a loss this year ended June 30, 2009 as well. However, the loss was \$412,032, which represents better than a \$1 million improvement over the previous year. Management is determined to improve financial performance. There are many reasons for this turnaround including new services, expense management, and efficient operations.

In August of 2008, Magnetic Resonance Imaging (MRI) was introduced to this facility to improve access to area residents and to better meet the healthcare needs of our community. Our new Sleep Center was recently introduced to assist with more effectively diagnosing sleep disorders. There are approximately 5,200 hospitals in the United States and of these, there are approximately 400 hospitals offering services through an accredited Chest Pain Center. DCGH is one of the 400 accredited Chest Pain Centers within the United States. This accreditation promotes the fastest and most appropriate response for those suffering from potentially life threatening cardiovascular issues. Additionally, during this past year, a hospitalist physician has been established to provide and/or assist with inpatient care. To further address the healthcare needs of the community, a pulmonologist has joined the medical staff and regularly provides care within our Specialty Clinic. The medical staff and the community have responded positively by utilizing all of these new services. All of which were made available to meet the needs of this community and enhance the healthcare provided by DCGH.

The financial performance of DCGH is summarized below. Current assets dropped significantly most notably in net accounts receivable by over \$400,000. The reduction occurred through efficiencies in which insurance claims are processed, quickening the rate at which these claims are paid. This additional cash flow, offered management the opportunity to significantly reduce liabilities from a year ago. Overall liabilities were reduced in excess of \$600,000. Some of these reduced payables dated back to 2005.

COMPARATIVE DATA

Statement of Net Assets

	30-Jun-09	Percent of Total	30-Jun-08	Percent of Total
Current and other assets	\$ 2,292,420	47.7%	\$ 3,159,302	53.7%
Capital assets	\$ 2,513,406	52.3%	\$ 2,723,164	46.3%
Total Assets	\$ 4,805,826	100.0%	\$ 5,882,466	100.0%
Long-term liabilities	\$ 1,796,087	39.1%	\$ 1,189,463	22.6%
Other liabilities	\$ 2,799,743	60.9%	\$ 4,070,975	77.4%
Total Liabilities	\$ 4,595,830	100.0%	\$ 5,260,438	100.0%
Net assets				
Invested in capital assets, net of related debt	\$ 1,220,734	581.3%	\$ 1,347,961	216.7%
Unrestricted Net Deficit	\$ (1,010,738)	-481.3%	\$ (725,933)	-116.7%
Total Net Assets	\$ 209,996	100.0%	\$ 622,028	100.0%

Changes in the Hospital's net assets are described below:

	30-Jun-09	30-Jun-08
Revenues		
Net patient revenues	\$ 10,782,995	\$ 9,740,944
Other operating revenue	\$ 186,687	\$ 181,686
Total Revenues	\$ 10,969,682	\$ 9,922,630
Expenses		
Nursing services	\$ 2,110,559	\$ 2,407,240
Other professional services	\$ 5,425,454	\$ 5,248,743
General services	\$ 817,428	\$ 857,897
Fiscal and administrative services	\$ 2,537,248	\$ 2,378,020
Depreciation	\$ 439,914	\$ 447,956
Total Expenses	\$ 11,330,603	\$ 11,339,856
Operating income (loss)	\$ (360,921)	\$ (1,417,226)
Nonoperating expenses	\$ (51,111)	\$ (70,986)
Change in net assets	\$ (412,032)	\$ (1,488,212)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Property and equipment net of accumulated depreciation decreased by \$209,758 or 7.7%. Accumulated depreciation increased \$374,111 or 6.5%. However, the increase in accumulated depreciation is less than increases of the previous year.

At June 30, 2009, the Hospital has negotiated long-term debt instruments totaling \$2,294,306. This is a reduction of \$417,607 from the previous year's debt of \$2,711,913. Of the \$2.3 million of debt, \$498,219 is considered current reflecting a reduction of over \$1 million of the current portion of long-term debt over last year. Decatur County currently supports the Hospital by annually contributing approximately \$35,000 toward the retirement of long-term debt. The amount of \$1,193,062 is the total amount of debt (net of the loss on past bond refunding of \$18,008) currently held by Decatur County. An amount of \$1,101,244 represents notes payable to a local bank secured by accounts receivable and certain long-term assets. The notes have an interest rate of 7%. The Hospital is current with all scheduled payments to the local bank.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

The breakdown for operating revenue consists of approximately 33% inpatient and 67% outpatient.

Medicare and TennCare revenues make up 70.5% of the Hospital's total gross patient revenue. Commercial payers total 23.8% and private-pay represents 5.7%.

The budgeting process for the upcoming year beginning July 1, 2009 was significantly revamped requiring additional participation by facility department managers and incorporating a new chart of accounts to facilitate management's responsibility for fiscal responsibility.

For the fiscal year beginning July 1, 2009, the Hospital projects an increase of 6.5% in total net patient revenues or 11,679,708. This is an increase based upon actual revenues experienced for fiscal year ended June 30, 2009 and changes in expected utilization of hospital services. Included in the budgeted revenues are long-standing and previously mentioned new services of Magnetic Resonance Imaging (MRI), Sleep Center and the hospital-based physician or Hospitalist program. Budgeted expenses reflect an increase of 6.2% over actual expenses for the fiscal year ended June 30, 2009. Revenues in excess of expenses of \$106,131, is budgeted for fiscal year ending June 30, 2010.

CONTACTING THE DECATUR COUNTY GENERAL HOSPITAL MANAGEMENT

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

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

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

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

- Norene Pumphrey, Chief Executive Officer
- Timothy B. Bishop, Chief Financial Officer

DECATUR COUNTY GENERAL HOSPITAL
(a component unit of Decatur County)

Statements of Net Assets

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 412,239	\$ 519,050
Accounts receivable, less allowance for uncollectible accounts of \$1,835,999 and \$1,431,359 in 2009 and 2008, respectively	1,493,101	2,122,343
Inventories	259,039	232,866
Prepaid expenses	<u>42,265</u>	<u>41,542</u>
Total current assets	2,206,644	2,915,801
Property and equipment, net	2,513,406	2,723,164
Due from physicians	84,267	240,482
Bond issuance costs	<u>1,509</u>	<u>3,019</u>
	<u>\$ 4,805,826</u>	<u>\$ 5,882,466</u>
 <u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	\$ 981,837	\$ 1,328,641
Accrued compensated balances	765,767	843,670
Other accrued expenses	223,162	184,414
Accrued interest	80,488	83,568
Estimated third-party payor settlements	250,270	108,232
Current portion of long-term debt	<u>498,219</u>	<u>1,522,450</u>
Total current liabilities	2,799,743	4,070,975
Long-term debt, excluding current portion	<u>1,796,087</u>	<u>1,189,463</u>
Total liabilities	<u>4,595,830</u>	<u>5,260,438</u>
Net assets, unrestricted:		
Invested in capital assets, net of related debt	1,220,734	1,347,961
Unrestricted net deficit	<u>(1,010,738)</u>	<u>(725,933)</u>
Total net assets	<u>209,996</u>	<u>622,028</u>
	<u>\$ 4,805,826</u>	<u>\$ 5,882,466</u>

See accompanying notes to the financial statements.

DECATUR COUNTY GENERAL HOSPITAL
(a component unit of Decatur 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 \$1,563,974 and \$1,190,195 in 2009 and 2008, respectively	\$ 10,782,995	\$ 9,740,944
Other revenue	<u>186,687</u>	<u>181,686</u>
Total operating revenue	<u>10,969,682</u>	<u>9,922,630</u>
Expenses:		
Nursing services	2,110,559	2,407,240
Other professional services	5,425,454	5,248,743
General services	817,428	857,897
Fiscal and administrative services	2,537,248	2,378,020
Depreciation	<u>439,914</u>	<u>447,956</u>
Total expenses	<u>11,330,603</u>	<u>11,339,856</u>
Operating loss	(360,921)	(1,417,226)
Other income (expense):		
Interest income	1,458	2,291
Interest expense	(128,295)	(127,181)
Gain (loss) on disposal of assets	373	(3,815)
Contribution from Decatur County	35,100	35,419
State grants	<u>40,253</u>	<u>22,300</u>
Total other income (expense)	<u>(51,111)</u>	<u>(70,986)</u>
Excess of expenses over revenue	(412,032)	(1,488,212)
Net assets at beginning of year	<u>622,028</u>	<u>2,110,240</u>
Net assets at end of year	<u>\$ 209,996</u>	<u>\$ 622,028</u>

See accompanying notes to the financial statements.

DECATUR COUNTY GENERAL HOSPITAL
(a component unit of Decatur 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 patient service	\$ 11,670,607	\$ 10,115,120
Other operating cash receipts	186,687	243,220
Payments to suppliers and employees	<u>(11,258,550)</u>	<u>(10,175,578)</u>
Net cash provided by operating activities	<u>598,744</u>	<u>182,762</u>
Cash flows from noncapital financing activities:		
State grants	40,253	22,300
Payments on notes payable	(335,076)	(358,965)
Interest paid	<u>(75,875)</u>	<u>(60,932)</u>
Cash used for noncapital financing activities	<u>(370,698)</u>	<u>(397,597)</u>
Cash flows from capital and related financing activities:		
Proceeds from new debt	99,610	1,096,637
Acquisitions of equipment	(234,234)	(343,569)
Proceeds from sale of equipment	4,451	5,969
Payments on bonds payable, net of contribution from Decatur County	(150,642)	(62,518)
Interest paid	<u>(55,500)</u>	<u>(63,000)</u>
Cash provided by (used) for capital and related financing activities	<u>(336,315)</u>	<u>633,519</u>
Cash flows from investing activities - interest received	<u>1,458</u>	<u>2,291</u>
Increase (decrease) in cash	(106,811)	420,975
Cash and cash equivalents at beginning of year	<u>519,050</u>	<u>98,075</u>
Cash and cash equivalents at end of year	<u>\$ 412,239</u>	<u>\$ 519,050</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (360,921)	\$ (1,417,226)
Adjustments to derive cash effect:		
Depreciation	439,914	447,956
Amortization	5,111	5,111
Accounts receivable	629,242	461,461
Inventories	(26,173)	53,169
Prepaid expenses	(723)	50,884
Due from physicians	156,215	(30,349)
Accounts payable	(346,804)	876,014
Accrued compensating absences	(77,903)	(162,414)
Estimated third-party payor settlements	142,038	(513)
Other accrued expenses	38,748	(100,979)
Accrued interest to related party	<u>-</u>	<u>(352)</u>
Cash provided by operating activities	<u>\$ 598,744</u>	<u>\$ 182,762</u>

See accompanying notes to the financial statements.

DECATUR COUNTY GENERAL HOSPITAL
(a component unit of Decatur County)

Notes to the Financial Statements

June 30, 2009 and 2008

(1) Nature of operations

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

(2) Summary of significant accounting policies

The Hospital 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 Hospital 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) Cash and cash equivalents

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

The Hospital maintains checking accounts with local banks. The Hospital's investment policies are governed by State statute. Included in permissible investments are direct obligations of the U.S. Government and agency securities, certificates of deposit and savings accounts. The Hospital has no policy that further limits allowable investments. At June 30, 2009 and 2008, the Hospital had no investments.

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

**DECATUR COUNTY GENERAL HOSPITAL
(a component unit of Decatur County)**

Notes to the Financial Statements

June 30, 2009 and 2008

(c) Inventories

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

(d) Compensated absences

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

Full-time employees	
<u>Years of service</u>	<u>Hours earned per year</u>
0-1	176
2-4	210
5-14	251
15 or more	270

Part-time employees	
<u>Years of service</u>	<u>Hours earned per hour worked</u>
0-1	.08461
2-4	.10096
5-14	.12067
15 or more	.12989

(e) Property and equipment

Property and equipment acquisitions are recorded at cost. The Hospital capitalizes purchases that cost a minimum of \$500 and have a useful life greater than 1 year. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 5-15 years; buildings and improvements 15-42 years; fixed equipment 5-38 years; and major movable equipment 3-20 years.

DECATUR COUNTY GENERAL HOSPITAL
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Notes to the Financial Statements

June 30, 2009 and 2008

(f) Patient service revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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 \$12,400,000 and \$9,800,000 for the years ended June 30, 2009 and 2008, respectively. Approximately 54% and 61% of net patient service revenue was from Medicare for the years ended June 30, 2009 and 2008, respectively. Approximately 7% and 9% of net patient service revenue was from Medicaid/TennCare for the years ended June 30, 2009 and 2008, respectively.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges under this policy were \$230,561 and \$32,660 for the years ended June 30, 2009 and 2008, respectively.

(g) Risk management

The Hospital 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.

(h) Income taxes

The Hospital 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.

(i) 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.

DECATUR COUNTY GENERAL HOSPITAL
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Notes to the Financial Statements

June 30, 2009 and 2008

(j) 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.

(k) Net assets

All resources that are not restricted by donors are included in unrestricted net assets. Resources temporarily restricted by donors for specific purposes are reported as temporarily restricted net assets. When specific purposes are achieved, either through passage of a stipulated time or the purpose for restriction is accomplished, they are classified to unrestricted net assets and reported in the statement of revenues, expenses and changes in net assets. Resources temporarily restricted by donors for additions to land, building and equipment are initially reported as temporarily restricted net assets and are transferred to unrestricted net assets when expended. Donor-imposed restrictions which stipulate that the resources be maintained permanently are reported as permanently restricted net assets. Investment income for the permanently restricted net assets is classified as either temporarily restricted or unrestricted based on the intent of the donor. As of June 30, 2009 and 2008, there were no permanently or temporarily restricted net assets. Invested in capital assets, net of related debt is calculated as follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Property and equipment, net	\$ 2,513,406	\$ 2,723,164
Less:		
Current portion of long-term debt relating to the acquisition of property and equipment	(132,044)	(185,740)
Long-term debt, excluding current portion relating to the acquisition of property and equipment	<u>(1,160,628)</u>	<u>(1,189,463)</u>
Invested in capital assets, net of related debt	<u>\$ 1,220,734</u>	<u>\$ 1,347,961</u>

(l) Performance indicator

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

DECATUR COUNTY GENERAL HOSPITAL
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Notes to the Financial Statements

June 30, 2009 and 2008

(m) New accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. SFAS 157 also requires hospitals to disclose the fair value of their financial instruments according to a fair value hierarchy as defined in the standard. Additionally, hospitals are required to provide enhanced disclosure regarding financial instruments, including a reconciliation of the beginning and ending balances separately for each major category of assets and liabilities. SFAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007. However, in February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008. The Hospital adopted the applicable provisions of SFAS 157 related to financial assets and liabilities at the beginning of 2009. The adoption of this accounting standard did not have a significant impact on the Hospital's financial statements.

(n) Events occurring after reporting date

The Hospital has evaluated events and transactions that occurred between June 30, 2009 and September 29, 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 Hospital 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 Hospital'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 a decrease to revenue of approximately \$53,000 and \$4,000 for the years ended June 30, 2009, and 2008, respectively.

(a) Medicare

Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates are according to a patient classification system that is based on clinical, diagnostic and other factors. Effective August 1, 2001, outpatient services began to be paid for based on methodology similar to inpatient services. The Hospital's Medicare cost reports have been audited through June 30, 2006.

(b) Blue Cross

Inpatient services rendered to Blue Cross subscribers are reimbursed on a per diem basis. Outpatient services are reimbursed prospectively for some charges while others are based on a fee schedule or a percent of the Hospital's normal charges.

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Notes to the Financial Statements

June 30, 2009 and 2008

(c) TennCare

Inpatient services rendered to TennCare beneficiaries are paid primarily based on a per diem rate while outpatient services are paid under a variety of methodologies.

(d) Commercial payors

The Hospital has also entered into payment agreements with other commercial insurance carriers. The basis for payment to the Hospital under these agreements is essentially the same as the methodology for Blue Cross subscribers.

(e) Credit Concentration

The Hospital 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 Hospital had net receivables from the Federal Government (Medicare) of approximately \$650,000 and \$825,000, respectively, and from Medicaid/TennCare of approximately \$200,000 and \$260,000, respectively.

(4) 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</u> <u>June 30, 2008</u>	<u>Additions/</u> <u>Transfers</u>	<u>Placed in</u> <u>Service/</u> <u>Retirements</u>	<u>Balance at</u> <u>June 30, 2009</u>
Land	\$ 81,696	\$ -	\$ -	\$ 81,696
Land improvements	153,221	-	-	153,221
Buildings and improvements	2,733,379	-	-	2,733,379
Machinery and equipment	<u>5,504,485</u>	<u>234,234</u>	<u>(69,881)</u>	<u>5,668,838</u>
	<u>8,472,781</u>	<u>234,234</u>	<u>(69,881)</u>	<u>8,637,134</u>
Less allowance for depreciation and amortization:				
Land improvements	(153,108)	(46)	-	(153,154)
Buildings and improvements	(1,409,846)	(93,466)	-	(1,503,312)
Machinery and equipment	<u>(4,186,663)</u>	<u>(346,402)</u>	<u>65,803</u>	<u>(4,467,262)</u>
	<u>(5,749,617)</u>	<u>(439,914)</u>	<u>65,803</u>	<u>(6,123,728)</u>
	<u>\$ 2,723,164</u>	<u>\$ (205,680)</u>	<u>\$ (4,078)</u>	<u>\$ 2,513,406</u>

DECATUR COUNTY GENERAL HOSPITAL
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Notes to the Financial Statements

June 30, 2009 and 2008

	<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	\$ 81,696	\$ -	\$ -	\$ 81,696
Land improvements	153,221	-	-	153,221
Buildings and improvements	2,722,899	10,480	-	2,733,379
Machinery and equipment	<u>5,217,409</u>	<u>333,089</u>	<u>(46,013)</u>	<u>5,504,485</u>
	<u>8,175,225</u>	<u>343,569</u>	<u>(46,013)</u>	<u>8,472,781</u>
Less allowance for depreciation and amortization:				
Land improvements	(150,450)	(2,658)	-	(153,108)
Buildings and improvements	(1,329,534)	(80,312)	-	(1,409,846)
Machinery and equipment	<u>(3,855,076)</u>	<u>(364,986)</u>	<u>33,399</u>	<u>(4,186,663)</u>
	<u>(5,335,060)</u>	<u>(447,956)</u>	<u>33,399</u>	<u>(5,749,617)</u>
	<u>\$ 2,840,165</u>	<u>\$ (104,387)</u>	<u>\$ (12,614)</u>	<u>\$ 2,723,164</u>

(5) Long-term debt

A schedule of changes in the Hospital'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>
General Obligation					
Bonds	\$ 131,812	\$ -	\$ (75,742)	\$ 56,070	\$ 56,070
Revenue and Tax					
Bonds	1,265,000	-	(110,000)	1,155,000	45,000
Deferred loss on bond refunding	(21,609)	-	3,601	(18,008)	-
Notes Payable	<u>1,336,710</u>	<u>99,610</u>	<u>(335,076)</u>	<u>1,101,244</u>	<u>397,149</u>
	<u>\$ 2,711,913</u>	<u>\$ 99,610</u>	<u>\$ (517,217)</u>	<u>\$ 2,294,306</u>	<u>\$ 498,219</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>
General Obligation					
Bonds	\$ 194,330	\$ -	\$ (62,518)	\$ 131,812	\$ 75,740
Revenue and Tax					
Bonds	1,300,000	-	(35,000)	1,265,000	110,000
Deferred loss on bond refunding	(25,210)	-	3,601	(21,609)	-
Notes Payable	<u>599,038</u>	<u>1,096,637</u>	<u>(358,965)</u>	<u>1,336,710</u>	<u>1,336,710</u>
	<u>\$ 2,068,158</u>	<u>\$ 1,096,637</u>	<u>\$ (452,882)</u>	<u>\$ 2,711,913</u>	<u>\$ 1,522,450</u>

DECATUR COUNTY GENERAL HOSPITAL
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Notes to the Financial Statements

June 30, 2009 and 2008

General Obligation Refunding Bonds, Series 2003, dated January 24, 2003, were issued for the purpose of advance refunding the Series 1995 bonds. They are due in annual principal installments through 2010 and semiannual installments of interest from 1.45% to 3.20%. The bonds are secured by ad valorem taxes. The County pays the first \$35,000 annually. The Hospital remits funds to the County for the requirements above that amount.

Hospital Revenue and Tax Refunding and Improvement Bond Series 1999, dated April 1, 1999, were issued for the purpose of (a) advance refunding the Series 1994 bonds, and (b) financing the construction of additions to and equipping of the Hospital. They are due in annual principal installments through 2019 and semiannual installments of interest from 4.4% to 5.4%. Hospital revenues are the source of payment. The Hospital is responsible to remit funds to the County in amounts that are sufficient to cover the scheduled debt service payments. The Hospital incurred a loss on bond refunding related to these notes that will be amortized over the life of the bonds. The deferred loss has a balance of \$18,008 and \$21,609 as of June 30, 2009 and 2008, respectively.

Borrowings from local banks consisted of four notes with an outstanding balance of \$1,336,710 as of June 30, 2008. In January 2009, the Hospital refinanced the four notes into one note with a fixed interest rate of 7%. The outstanding balance as of June 30, 2009 was \$1,001,634. The note is due in monthly principal and interest payments of \$35,461 and matures January 2012. The note is secured by accounts receivable and certain equipment.

On June 30, 2009, the Hospital executed a promissory note with a local bank in the amount of \$99,610 with a fixed interest rate of 7%. The note is due in monthly principal and interest payments of \$3,080 and matures June 2012. The note is secured by certain equipment.

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	\$ 498,219	\$ 123,000	\$ 621,219
2011	528,999	90,000	618,999
2012	390,096	55,000	445,096
2013	110,000	43,000	153,000
2014	115,000	38,000	153,000
2015 - 2019	<u>670,000</u>	<u>105,000</u>	<u>775,000</u>
	2,312,314	<u>\$ 454,000</u>	<u>\$ 2,766,314</u>
Deferred loss on bond refunding	<u>(18,008)</u>		
	<u>\$ 2,294,306</u>		

DECATUR COUNTY GENERAL HOSPITAL
(a component unit of Decatur County)

Notes to the Financial Statements

June 30, 2009 and 2008

(6) Compliance with finance-related legal and contractual provisions

Decatur County has an understanding with the Hospital that the County will pay the first \$35,000 each year and the Hospital will pay the balance required to service the 2003 bonds. In addition, the Hospital is to pay all amounts required to service the 1999 bonds. At June 30, 2009 the Hospital was current with its required principal due to Decatur County. At June 30, 2008, the Hospital was in arrears \$89,670, in being current with its required principal payments. At June 30, 2009 and 2008, the Hospital also had approximately \$80,000 in delinquent interest payments due to Decatur County.

(7) Employee benefit plan

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

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

Participants may voluntarily make qualified retirement contributions to the Plan which are deductible by the participants for federal income tax purposes under Section 457(f) of the Internal Revenue Code ("IRC"). In order to participate, employees must make a minimum contribution of 1% of compensation. Participant contributions are permitted up to 100% of compensation.

The Hospital may make matching contributions equal to a discretionary percentage, as determined annually by the Hospital's Retirement Trust Committee. The Hospital made a matching contribution of 3% for the years ending June 30, 2009 and 2008, respectively. Hospital contributions for the years ended June 30, 2009 and 2008 were \$94,641 and \$207,893, respectively. Benefits of \$269,589, established when the plan was adopted, are being amortized over 43 years, based on the expected future service periods of the original eligible employees.

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

DECATUR COUNTY GENERAL HOSPITAL
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Notes to the Financial Statements

June 30, 2009 and 2008

(8) Related party transactions

In 2003, Decatur County (the County) issued general obligation refunding bonds, a portion of which was to refinance the 1995 bonds. The Hospital's portion of these bonds is included in the accompanying statements of net assets and is being retired over an 8-year period. The County pays a portion of the annual principal and interest requirements with the Hospital funding the remainder. Payments made by the County under this arrangement were \$35,100 and \$35,419 during the years ended June 30, 2009 and 2008, respectively. The Hospital is also required to remit funds to the County sufficient to retire the 1999 bonds (See Notes 5 and 6).

(9) Commitments and contingencies

The Hospital leases various equipment under operating lease agreements. Rent expense was approximately \$46,000 and \$15,000 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	\$ 60,000
2011	57,000
2012	38,000
2013	25,000
2014	<u>17,000</u>
	\$ <u>197,000</u>

The Hospital maintains commercial insurance on a claims-made basis for medical malpractice liabilities. Insurance coverages are \$300,000 individually and \$700,000 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 Hospital 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 Hospital's insurance coverages.

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.

**DECATUR COUNTY GENERAL HOSPITAL
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Notes to the Financial Statements

June 30, 2009 and 2008

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 Hospital 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 versus Hospital management. As the amount of any recovery is unknown, management has not recorded any reserves related to the RAC audit at this time.

DECATUR COUNTY GENERAL HOSPITAL
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Schedule of Expenses

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Nursing services expenses		
Nursing Services:		
Salaries	\$ 1,250,620	\$ 1,305,095
Supplies and maintenance	16,655	19,307
Other	<u>18,407</u>	<u>7,533</u>
	<u>1,285,682</u>	<u>1,331,935</u>
Operating Room:		
Salaries	113,786	178,363
Supplies	161,338	168,353
Professional fees	<u>7,651</u>	<u>195,833</u>
	<u>282,775</u>	<u>542,549</u>
Central services and supplies	<u>65,534</u>	<u>107,887</u>
Emergency room:		
Salaries	457,840	410,356
Other	<u>18,728</u>	<u>14,513</u>
	<u>476,568</u>	<u>424,869</u>
Total nursing services expenses	<u>\$ 2,110,559</u>	<u>\$ 2,407,240</u>
Other professional services expenses		
Laboratory:		
Salaries	\$ 436,919	\$ 401,042
Purchased services	95,704	97,320
Supplies	345,318	284,052
Other	<u>19,525</u>	<u>21,784</u>
	<u>897,466</u>	<u>804,198</u>
Radiology:		
Salaries	372,474	360,881
Purchased services	638,545	454,661
Other	<u>146,953</u>	<u>125,970</u>
	<u>1,157,972</u>	<u>941,512</u>
Pharmacy:		
Salaries	207,905	252,987
Drugs and pharmaceuticals	564,161	682,325
Other	<u>43,052</u>	<u>82,582</u>
	<u>815,118</u>	<u>1,017,894</u>
Inhalation therapy:		
Salaries	165,041	180,765
Other	<u>35,667</u>	<u>39,293</u>
	<u>200,708</u>	<u>220,058</u>
Physical therapy:		
Salaries	178,425	178,439
Other	<u>6,480</u>	<u>6,224</u>
	<u>184,905</u>	<u>184,663</u>
Emergency rooms - professional fees	<u>549,914</u>	<u>851,588</u>
Medical records:		
Salaries	193,893	181,002
Other	<u>27,636</u>	<u>10,479</u>
	<u>221,529</u>	<u>191,481</u>
Emergency medical service:		
Salaries	581,487	502,916
Employee benefits	34,721	49,795
Other	<u>108,193</u>	<u>94,939</u>
	<u>724,401</u>	<u>647,650</u>

See accompanying independent auditors' report.

DECATUR COUNTY GENERAL HOSPITAL
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Schedule of Expenses, Continued

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Clinic:		
Salaries	264,420	256,824
Other	<u>34,677</u>	<u>27,880</u>
	<u>299,097</u>	<u>284,704</u>
Biomedical:		
Salaries	87,530	40,780
Other	<u>1,940</u>	<u>3,579</u>
	<u>89,470</u>	<u>44,359</u>
Sleep center:		
Salaries	13,695	-
Other	<u>22,417</u>	<u>-</u>
	<u>36,112</u>	<u>-</u>
Other:		
Speech therapy	7,800	3,650
Social services	1,537	1,344
Mammography	13,692	23,186
Anesthesiology	644	9,823
Electrocardiology	20,786	20,294
Electroencephalography	325	2,339
Hospitalist	<u>203,978</u>	<u>-</u>
	<u>248,762</u>	<u>60,636</u>
Total other professional services expenses	<u>\$ 5,425,454</u>	<u>\$ 5,248,743</u>
General services expenses		
Dietary:		
Salaries	\$ 118,504	\$ 131,791
Other	<u>68,426</u>	<u>79,607</u>
	<u>186,930</u>	<u>211,398</u>
Housekeeping:		
Salaries	137,666	164,654
Other	<u>23,013</u>	<u>24,074</u>
	<u>160,679</u>	<u>188,728</u>
Laundry - supplies	<u>63,008</u>	<u>66,727</u>
Operation of Plant:		
Salaries	64,338	78,629
Supplies	8,452	10,945
Purchased services	32,642	17,814
Utilities	117,380	100,180
Repairs and maintenance	16,009	44,561
Other	<u>104,507</u>	<u>79,381</u>
	<u>343,328</u>	<u>331,510</u>
Purchasing:		
Salaries	60,494	59,161
Other	<u>2,989</u>	<u>373</u>
	<u>63,483</u>	<u>59,534</u>
Total general services expenses	<u>\$ 817,428</u>	<u>\$ 857,897</u>
Fiscal and administrative services expenses		
Salaries	\$ 601,358	\$ 336,703
Insurance and bonding	132,969	135,351
Employee benefits	350,979	373,917
Payroll taxes	380,142	376,604
Pension	94,641	207,893
Repairs and maintenance	155,926	137,395
Physician recruitment	-	43,226
Other	481,721	422,609
Professional fees	<u>339,512</u>	<u>344,322</u>
Total fiscal and administrative services expenses	<u>\$ 2,537,248</u>	<u>\$ 2,378,020</u>

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
Decatur County General Hospital
Parsons, Tennessee:

We have audited the financial statements of Decatur County General Hospital (the "Hospital"), a component unit of Decatur County, Tennessee, as of and for the year ended June 30, 2009, and have issued our report thereon dated September 29, 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 Hospital'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 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.

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 Hospital'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 Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital'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 Hospital'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 Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*. We noted that the Hospital has approximately \$80,000 in delinquent interest payments due to Decatur County at June 30, 2009.

We noted certain matters that we reported to management of Decatur County General Hospital in a separate letter dated September 29, 2009.

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.

Latterini Black Morgan & Carr, PC

Brentwood, Tennessee
September 29, 2009