# HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME

## FINANCIAL STATEMENTS AND AUDITORS' REPORTS
## JUNE 30, 2009

**HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME**

**INDEPENDENT AUDITORS' REPORTS, FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

**JUNE 30, 2009**

## TABLE OF CONTENTS

WILLIAMS, JERROLDS, GODWIN & NICHOLS, PLLC
Certified Public Accountants
408 Main Street, Savannah, Tennessee 38372 Phone (731) 925-6547 Fax (731) 925-9524

**Independent Auditors' Report on Financial Statements**

Chairman and Board of Directors
Hardin Medical Center
Savannah, Tennessee

We have audited the accompanying consolidated financial statements of Hardin Medical Center (a component unit of Hardin County, Tennessee), and Hardin County Nursing Home (a fund of Hardin Medical Center), as of and for the year ended June 30, 2009, as listed in the table of contents. These consolidated 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only Hardin Medical Center and Hardin County Nursing Home and do not purport to, and do not, present fairly the financial position of Hardin County, Tennessee, as of June 30, 2009, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hardin Medical Center and Hardin County Nursing Home as of June 30, 2009, and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 20, 2010 on our consideration of Hardin Medical Center's and Hardin County Nursing Home's internal control over financial reporting and our tests of their 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 provide an opinion on the internal control over financial reporting and on the compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

The management's discussion and analysis on pages 4 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hardin Medical Center's basic financial statements. The required supplementary information (page 20) and supplementary information section (pages 21 – 30) are presented for purposes of additional analysis and are not required parts of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The required supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Williams, Jenolds, Godwin & Nuttoh, PLLC

January 20, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Hardin Medical Center's financial performance provides an overview of both the Hospital's and Nursing Home's financial activities for the year ended June 30, 2009.

### FINANCIAL HIGHLIGHTS

Condensed information follows:

| | 2009 | 2008 (restated) | Increase (Decrease) $ | Increase (Decrease) % |
|---|---|---|---|---|
| Total assets | $ 27,413,213 | $ 28,724,896 | $ (1,311,683) | -4.57% |
| Current liabilities | 2,809,144 | 2,319,400 | 489,744 | 21.12% |
| Long-term liabilities | 7,419,304 | 7,850,551 | (431,247) | -5.49% |
| Total net assets, invested in capital assets, net of related debt | 5,615,960 | 5,466,840 | 149,120 | 2.73% |
| Total net assets, restricted | - | 100,000 | (100,000) | n/a |
| Total net assets, unrestricted | 11,568,805 | 12,988,105 | (1,419,300) | -10.93% |
| Net patient service revenue | 29,787,170 | 26,618,737 | 3,168,433 | 11.90% |
| Total revenues | 30,260,886 | 27,162,618 | 3,098,268 | 11.41% |
| Operating expenses | 29,570,896 | 28,287,329 | 1,283,567 | 4.54% |
| Total expenses | 29,731,066 | 28,531,440 | 1,199,626 | 4.20% |
| Change in net assets | 529,820 | (1,368,822) | 1,898,642 | n/a |
| Ending net assets | 17,184,765 | 16,654,945 | 529,820 | 3.18% |

### USING THE FINANCIAL REPORT

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets include all assets and liabilities of the Medical Center using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid. These statements provide information about whether the entity is better off or worse off as a result of the year's activities.

Net assets is the difference between the Medical Center's assets and liabilities. Over time, increases or decreases in the Medical Center's net assets provide one indicator of the financial health of the facility.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

During the year, $1,335,212 of fixed assets were purchased. Accumulated depreciation increased $1,602,045.

## ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

Net operating income was approximately $435,000. Hardin Medical Center generated $80 million in gross operating revenue; i.e., before contractual adjustments. The breakdown for operating revenue consists of 34% inpatient and 66% outpatient.

Hardin Medical Center is dependent on governmental programs. Medicare and TennCare make up approximately 68% of the Medical Center's payer mix, commercial insurance equals 26% and self pay accounts equal 6%.

The budgeting process is a participatory process in that departmental directors of the Medical Center are involved in its development and monitoring. Department heads are provided a framework of economic conditions and general assumptions and they, in turn, request the resources they will need to accomplish their goals and objectives within that framework.

For fiscal year beginning July 1, 2009 the Hospital and Nursing Home projected decreases of 1.4% in net patient service revenue, 2.8% in salaries, and 3.1% in other expenses.

## CONTACTING THE HARDIN MEDICAL CENTER MANAGEMENT

This financial report is designed to provide our citizens, customers, taxpayers and creditors with a general overview of the facilities' finances and to show accountability for the money they receive. If you have questions about this report or need additional financial information, contact the Finance Department of the Hardin Medical Center, 935 Wayne Road, Savannah, Tennessee 38372.

HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME
CONSOLIDATED STATEMENT OF NET ASSETS
JUNE 30, 2009

## ASSETS

| | |
|---|---|
| **CURRENT ASSETS** | |
| Cash and cash equivalents | $ 2,373,506 |
| Investments - certificates of deposit | 2,680,786 |
| Accounts receivable, net of allowance for uncollectible accounts of $9,212,249 | 5,402,709 |
| Other receivables | 131,972 |
| Due from intermediaries | 657,211 |
| Inventories | 1,355,928 |
| Prepaid expenses | 38,248 |
| TOTAL CURRENT ASSETS | 12,640,360 |
| **RESTRICTED ASSETS** | |
| Cash and cash equivalents | 62,078 |
| Investments - certificates of deposit | 256,992 |
| TOTAL RESTRICTED ASSETS | 319,070 |
| **PLANT IN SERVICE** | 30,320,606 |
| Less: accumulated depreciation | (16,857,094) |
| NET PLANT IN SERVICE | 13,463,512 |
| **OTHER ASSETS** | |
| Physician guarantees | 915,457 |
| Education assistance loans | 62,468 |
| Trust fund accounts | 10,496 |
| Utility deposits | 1,850 |
| TOTAL OTHER ASSETS | 990,271 |
| TOTAL ASSETS | $ 27,413,213 |

## LIABILITIES AND NET ASSETS

| | |
|---|---|
| **CURRENT LIABILITIES** | |
| Accounts payable | $ 1,006,225 |
| Accrued payroll and payroll taxes | 454,145 |
| Accrued vacation and holiday | 403,250 |
| Other accrued expenses | 187,702 |
| Deferred revenue | 319,070 |
| Trust funds | 10,504 |
| Current portion of long-term obligations | 428,248 |
| TOTAL CURRENT LIABILITIES | 2,809,144 |
| **LONG-TERM LIABILITIES, net of current portion** | |
| Note payable | 197,500 |
| Capital lease obligation | 586,804 |
| Bonds payable | 6,635,000 |
| TOTAL LONG-TERM LIABILITIES | 7,419,304 |
| TOTAL LIABILITIES | 10,228,448 |
| **NET ASSETS** | |
| Invested in capital assets, net of related debt | 5,615,960 |
| Unrestricted | 11,568,805 |
| TOTAL NET ASSETS | 17,184,765 |
| TOTAL LIABILITIES AND NET ASSETS | $ 27,413,213 |

## HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME
## CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
## YEAR ENDED JUNE 30, 2009

| | |
|---|---|
| **NET PATIENT SERVICE REVENUE** | $ 29,787,170 |
| **OTHER OPERATING INCOME** | 219,275 |
| **TOTAL OPERATING INCOME** | 30,006,445 |
| **OPERATING EXPENSES** | |
| Salaries | 13,040,388 |
| Benefits | 3,281,883 |
| Purchased services | 2,765,798 |
| Consultants | 75,160 |
| Insurance | 263,184 |
| Supplies | 5,969,139 |
| Utilities | 364,564 |
| Communication | 16,200 |
| Repairs and maintenance | 919,094 |
| Travel and education | 168,785 |
| Dues and subscriptions | 79,384 |
| Equipment rental | 309,472 |
| Physician recruitment | 483,003 |
| State license fee | 162,425 |
| Other expense | 70,372 |
| Depreciation and amortization | 1,602,045 |
| **TOTAL OPERATING EXPENSES** | 29,570,896 |
| **NET OPERATING INCOME** | 435,549 |
| **OTHER REVENUE (EXPENSE)** | |
| Interest income | 119,519 |
| Interest expense | (160,170) |
| Operating grant | 34,922 |
| Ambulance subsidy | 100,000 |
| **NET OTHER REVENUE** | 94,271 |
| **INCREASE IN NET ASSETS** | 529,820 |
| **NET ASSETS - BEGINNING (as restated)** | 16,654,945 |
| **NET ASSETS - ENDING** | $ 17,184,765 |

# HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME
## CONSOLIDATED STATEMENT OF CASH FLOWS
### YEAR ENDED JUNE 30, 2009

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Receipts from patient services | $ 30,400,061 |
| Payments to suppliers | (14,564,793) |
| Payments to employees | (13,150,335) |
| Receipts from other operating activities | 613,471 |
| **CASH PROVIDED BY OPERATING ACTIVITIES** | 3,298,404 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | |
| Investments redeemed | 228,481 |
| Interest income | 119,519 |
| **CASH PROVIDED BY INVESTING ACTIVITIES** | 348,000 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | |
| Grant received | 97,000 |
| Ambulance subsidy | 100,000 |
| **CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES** | 197,000 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Principal paid on long-term debt | (415,953) |
| Interest paid | (160,170) |
| Purchases of fixed assets | (1,335,212) |
| **CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES** | (1,911,335) |
| **NET INCREASE IN CASH** | 1,932,069 |
| **CASH AND CASH EQUIVALENTS - BEGINNING** | 503,515 |
| **CASH AND CASH EQUIVALENTS - ENDING** | $ 2,435,584 |

| | |
|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | |
| Operating income | $ 435,549 |
| Adjustments to derive cash effect: | |
| Depreciation and amortization | 1,602,045 |
| Accounts receivable | 633,056 |
| Other receivables | (131,972) |
| Utility deposits | (1,820) |
| Due from intermediaries | (20,173) |
| Inventory | 130,292 |
| Prepaid insurance | 17,658 |
| Physician guarantees | 225,550 |
| Accounts payable | 326,663 |
| Accrued payroll and vacation | (109,947) |
| Deferred revenue | 256,992 |
| Patient trust fund liabilities | 8 |
| Other accrued expenses | (65,497) |
| **CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | $ 3,298,404 |

**The accompanying notes are an integral part of these financial statements.**

## HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME
## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
## YEAR ENDED JUNE 30, 2009

### SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

| | |
|---|---|
| Acquisitions of fixed assets | $ 1,335,212 |
| Less: financed with capital lease obligations | - |
| Net cash paid for equipment | $ 1,335,212 |

The accompanying notes are an integral part of these statements.

## NOTE 1 - GENERAL INFORMATION

### General

Hardin Medical Center (HMC) and Hardin County Nursing Home (HCNH) are both located in Savannah, Tennessee. HMC is a community medical center providing general as well as various specialized medical services to patients, and HCNH is a 73-bed intermediate care facility, 25 beds of which are also certified for skilled care.

### Reporting Entity

HMC is a component unit of Hardin County, Tennessee (the County). The County Board of Commissioners is responsible for appointing each member of HMC's board of directors which also oversees HCNH's activities. Historically, HMC has paid related general obligation bonds for which the County was ultimately liable. Information relative to the County may be obtained by reading its separately issued financial statements.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### GASB conformity

The financial statements included herein are prepared in conformity with generally accepted accounting principles (GAAP) as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB). HMC applies Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) Opinions and Accounting and Research (ARB) Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the option of electing to apply FASB pronouncements after November 30, 1989. HMC and HCNH have elected not to apply FASB pronouncements after that date.

### Measurement focus and basis of accounting

HMC and HCNH use the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with their activities are reported. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made, regardless of the measurement focus applied. HMC and HCNH use the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when incurred.

**Cash equivalents**
HMC considers all highly liquid investments which are demand in nature or with a maturity of three months or less when purchased to be cash equivalents.

**Accounts receivable**
Accounts receivable consists entirely of amounts due for patient services that were billed but not received by the end of the year. The allowance for uncollectible accounts is based on historical trends.

**Inventories**
Inventories of operational supplies are carried at cost (first-in, first-out method).

**Compensated absences**
HMC employees earn vacation and sick leave on a ratable basis determined by months employed. The amounts earned on both types of leave can be carried forward from one year to the next subject to stated maximums in both areas. Payment is allowed for accumulated vacation days upon termination of employment but not for accumulated sick leave.

**Fund Accounting**
The accounts of HMC are organized on the basis of funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses, as appropriate. The accounts in the financial statements in this report fall under one broad fund category as follows:

**Proprietary Funds**

**Enterprise Funds** - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Fixed assets**
All plant in service acquisitions subsequent to 1967 have been recorded at cost. Assets acquired prior to that date and still on hand and in use at that date were inventoried and appraised by a firm of independent appraisers in order to be eligible for participation in the Medicare program. Expenditures which materially increase the values or capacities or extend useful lives of these assets are

capitalized while expenditures for maintenance and repairs are charged to operations as incurred. Applicable interest cost is capitalized as part of the cost of the asset. Gains or losses from the sales of property, plant, and equipment are reflected in operations and the asset accounts and related allowances for depreciation are reduced. Also, depreciation expense is systematically charged against operations. Depreciable fixed assets are being depreciated over various estimated useful lives on the straight-line basis. Depreciation expense also includes the amortization of equipment acquired by entering into capital lease obligations.

**Operating and nonoperating income**

Operating income includes net patient service revenue and other miscellaneous receipts that support operations.

**Principles of consolidation**

The consolidated financial statements include the accounts of HMC and HCNH. All significant inter-company balances and transactions have been eliminated.

## NOTE 3 - DUE FROM/TO THIRD-PARTY PAYERS

HMC participates in the Medicare and Tenncare programs as well as providing health care services to patients whose coverage is paid for by commercial insurance carriers. Reimbursements for certain services under the Medicare program is made on the basis of audited Medicare reports filed on a fiscal year basis. Periodically, the commercial insurance carriers may conduct their own audit of hospital records. The amounts presented below are subject to final audit by the intermediaries. The amounts due to intermediaries represent amounts determined to be receivable as a result of estimates. HMC's Medicare cost reports have been audited through June 30, 2008.

## NOTE 4 - ECONOMIC DEPENDENCY

**HMC**

Approximately 45% of total charges for the year were made to the Medicare program, and 34% of the net accounts receivable balance as of June 30 was due from the Medicare program.

**HCNH**

Approximately 64% of net patient service revenue was derived from the Medicaid program. As a result, a portion of charges for patients' care was paid for by the State of Tennessee. Approximately 53% of the net accounts receivable balance as of June 30 was due from Medicare.

HMC and HCNH are subject to the general economic conditions of the region in which they are located as well as the economic stability of the third party providers of patient insurance.

## NOTE 5 - PHYSICIAN GUARANTEES

HMC has entered into agreements with local physicians whereby it will extend lines of credit, subject to stated maximums. The loans are to be forgiven if the physicians maintain a practice in the area for specified terms. The amount in other assets represents the balances of these loans.

## NOTE 6 - PENSION PLAN

### (Defined benefit plan)

**Plan description**
Employees of HMC and HCNH 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 5 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 5 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 on or after July 1, 1979 become vested after 5 years of service and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Hospital and Nursing Home 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/tcrs/PS/.

**Funding policy**
For employees hired before July 1, 1986, HMC has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0% of annual covered payroll. Employees hired on July 1, 1986 and after are required to contribute 5.0% of earnable compensation.

HMC is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2009 was 10.66% of annual covered payroll. The contribution requirement of plan members is set by State statute. Contribution requirements for HMC are established and may be amended by the TCRS Board of Trustees.

**Annual pension cost**

For the year ended June 30, 2009, HMC's annual pension cost of $560,400 to TCRS was equal to its required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. HMC's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007, was 8 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

**Trend information**

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/06 | $ 560,400 | 100.00 | $ - 0 - |
| 6/30/08 | $ 1,036,176 | 100.00 | $ - 0 - |
| 6/30/07 | $ 993,229 | 100.00 | $ - 0 - |

**Funded Status and Funding Progress**

As of July 1, 2007, the most recent actuarial valuation date, the plan was 85.39% funded. The actuarial accrued liability for benefits was $26.37 million, and the actuarial value of assets was $22.52 million, resulting in unfunded actuarial accrued liability (UAAL) of $3.85 million. The covered payroll (annual payroll of active employees covered by the plan) was $10 million, and the ratio of the UAAL to the covered payroll was 40.29%.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The required annual contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 7/01/07 | $22,524 | $26,378 | $3,854 | 85.39% | $9,564 | 40.30% |

**(Defined contribution)**

In July 2008 HMC began providing a 403(b) plan which covers full-time employees who choose not to participate in the defined benefit plan. The employer contributes 3% of compensation plus it will match half of each employee's contribution (up to an additional 3%). The total retirement plan expense associated with this plan for the year was $388,381.

## NOTE 7 - CHARITY CARE

HMC maintains records to identify and monitor the level of charity care it provides for patients. The records include the amount of charges foregone for services and supplies furnished under its charity care policy. HMC provided charity care services, measured in terms of established patient billing rates, of approximately $2,023,280.

## NOTE 8 - DEPOSITS AND INVESTMENTS

HMC and HCNH maintain checking accounts and certificates of deposit with local banks. Their 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. HMC and HCNH have no policy that further limits allowable investments. At June 30, 2009, investments consisted entirely of certificates of deposit. Investments are carried at cost which approximates fair value.

For deposits, custodial credit risk is the risk that, in the event of a bank failure, deposits may not be returned. HMC and HCNH do not have a policy regarding custodial credit risk for deposits. Collateral is required for demand deposits and certificates of deposit at 105% of all amounts not covered by federal deposit 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. At June 30, 2009, $263,646 of total bank balances of $6,162,819 was exposed to custodial credit risk due to being uninsured and uncollateralized.

## NOTE 9 – ACCOUNTS PAYABLE

Accounts payable consists entirely of amounts payable to vendors.

## NOTE 10 - LONG-TERM DEBT

The County entered into a loan agreement in 2003 whereby it borrowed $8,000,000 in bonds for improvements to HMC. HMC is repaying the bonds which are to be retired in annual principal and monthly interest payments. The interest rate to be paid is variable, which at June 30 was 1.54%.

HMC borrowed $300,000 in 2007 from Tennessee Valley Electric Cooperative under the Rural Economic Loan and Grant Program. The proceeds were used to finance new computer software. The note bears no interest but the principal is to be repaid in monthly installments of $2,500 through January 2017. Security is a certificate of deposit and an irrevocable standby letter of credit.

In June 2008, HMC financed the purchase of equipment with a capital lease obligation that requires monthly interest and principal payments of $17,200 through June 2013 at an interest rate of 3.52%.

Maturities of all long-term debt are as follows:

| | Principal | | | |
|---|---|---|---|---|
| | Bonds | Note | Capital Lease | Interest |
| 2010 | $ 216,000 | $ 30,000 | $182,248 | $ 129,654 |
| 2011 | 223,000 | 30,000 | 188,767 | 119,809 |
| 2012 | 231,000 | 30,000 | 195,921 | 109,221 |
| 2013 | 238,000 | 30,000 | 202,116 | 99,469 |
| 2014 | 246,000 | 30,000 | - | 91,522 |
| 2015 – 2019 | 1,362,000 | 77,500 | - | 398,106 |
| 2020 – 2024 | 1,604,000 | - | - | 286,009 |
| 2025 – 2029 | 1,893,000 | - | - | 153,907 |
| 2030 – 2031 | 838,000 | - | - | 19,388 |

Following is a summary of changes in long-term debt for the year.

| | Balance at beginning of year | Increases | Decreases | Balance at end of year | Due within one year |
|---|---|---|---|---|---|
| Bonds | $ 7,061,000 | $ - | $ 210,000 | $ 6,851,000 | $ 216,000 |
| Notes | 257,500 | - | 30,000 | 227,500 | 30,000 |
| Capital Leases | 945,005 | - | 175,953 | 769,052 | 182,248 |
| Total | $ 8,263,505 | $ - | $ 415,953 | $ 7,847,552 | $ 428,248 |

## NOTE 11 – NET ASSETS

Net assets invested in capital assets, net of related debt, is calculated by taking the net plant in service of $13,463,512 less applicable debt of $7,847,552.

## NOTE 12 - NET PATIENT SERVICE REVENUE

HMC and HCNH have agreements with third-party payers that provide for payments at amounts different from their established rates. Net operating revenues are net of contractual adjustments and policy discounts of $49,158,450 (HMC) and $513,118 (HCNH). A summary of the payment arrangements with major third-party payers follows:

**Medicare (HMC)**
Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

**TennCare – Blue Cross (HMC)**
Inpatient (IP) services rendered to TennCare beneficiaries paid for by Blue Cross are paid at prospective determined rates per discharge. Outpatient (OP) services are paid based on a pre-approved fee schedule.

**TennCare – Omni Care, Better Health and TLC (HMC)**
IP charges are paid on a per diem basis and OP charges are paid based on a fee schedule and/or percent of charges.

**Blue Cross (HMC)**
IP services rendered to Blue Cross subscribers are reimbursed at HMC's normal charges reduced by certain contractual adjustments. The normal charges do not exceed the approved amounts established by Blue Cross.

**Other (HMC)**
HMC 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.

**Skilled care (HCNH)**
Services rendered to Medicaid program beneficiaries are paid for on a per diem basis, which represents a tentative rate. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Those rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

**Intermediate care (HCNH)**
Services rendered to patients requiring only intermediate level care are paid for on a per diem basis. Rates are determined annually based on actual costs.

## NOTE 13 – AMBULANCE SERVICE

The County paid the construction cost of a building to house ambulance facilities and has also purchased ambulances and related equipment but HMC is responsible for operating the ambulance service. Expenditures by the County since the Hospital began operating the ambulance service in 1997 amounts to $1,269,088. This amount is not reflected in property and equipment in the accompanying financial statements. In addition, the County provides an annual subsidy ($100,000 in 2009) to defray costs incurred in operating the ambulance service. This annual allocation is in addition to the cumulative expenditures mentioned above.

## NOTE 14 - RISK MANAGEMENT

HMC and HCNH are subject to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is carried for employees' bonds, personal and professional liability, and property destruction. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for any of the past three fiscal years.

Beginning April 2002, medical and dental insurance for employees is provided by self-funding claims as they arise. Under this arrangement, HMC provides coverage for up to a maximum of $50,000 per year for each employee's medical claims. HMC has purchased commercial insurance for claims in excess of coverage provided through the self-insurance plan. Claims expenditures and liabilities are reported under the self-insurance plan when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Changes in the claims liability for all employees are as follows:

| Balance at beginning of year | Incurred claims | Claims payments | Employee deductions | Balance at end of year |
|---|---|---|---|---|
| $ 132,837 | $ 1,642,130 | $(1,082,211) | $(559,919) | $ 132,837 |

## NOTE 15 – RESTRICTED ASSETS / DEFERRED REVENUE

HMC received a contribution that is restricted by the donor for specific construction purposes. If the anticipated construction does not occur, the contribution must be returned to the donor. The money was placed in an interest-bearing account. Accordingly, $256,992 represents the contribution plus interest earned on the balance as of June 30.

HCNH received a grant of $97,000 to be used to provide adult day care services. At June 30, $62,078 had not been earned and, accordingly, is shown as deferred revenue.

## NOTE 16 – OPERATING LEASES

HMC leased surgery cataract equipment under operating leases during the year for a total expense of $309,472.

## NOTE 17 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to increase the allowance for doubtful accounts by $1,900,000 as of June 30, 2008.

## NOTE 18 – CAPITAL ASSETS

Capital asset activity for the year follows:

| | Balance Beginning | Increases | Decreases | Balance Ending |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 64,500 | $ 160,000 | $ - | $ 224,500 |
| Construction in progress | - | 93,403 | - | 93,403 |
| Total capital assets not being depreciated | 64,500 | 253,403 | - | 317,903 |
| Capital assets being depreciated: | | | | |
| Land improvements | 317,090 | - | - | 317,090 |
| Buildings | 13,578,977 | 577,352 | - | 14,156,329 |
| Equipment | 12,070,882 | 504,457 | - | 12,575,339 |
| Furniture and fixtures | 193,104 | - | - | 193,104 |
| Assets under capital lease | 2,673,852 | - | - | 2,673,852 |
| Intangible costs | 86,989 | - | - | 86,989 |
| Total capital assets being depreciated | 28,920,894 | 1,081,809 | - | 30,002,703 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 242,505 | 23,812 | - | 266,317 |
| Buildings | 4,316,600 | 354,019 | - | 4,670,619 |
| Equipment | 8,646,439 | 904,498 | - | 9,550,937 |
| Furniture and fixtures | 131,065 | 13,445 | - | 144,510 |
| Assets under capital lease | 1,831,451 | 306,271 | - | 2,137,722 |
| Intangible costs | 86,989 | - | - | 86,989 |
| Total accumulated depreciation | 15,255,049 | 1,602,045 | - | 16,857,094 |
| Total capital assets being depreciated, net | 13,665,845 | (520,236) | - | 13,145,609 |
| Total capital assets, net | $ 13,730,345 | $ (266,833) | $ - | $ 13,463,512 |

Depreciation expense of $1,602,045 (including $306,271 on assets under capital leases) was recorded by HMC and HCNH. Fully depreciated assets at June 30, 2009 amounted to $8,811,733. Related interest cost of $155,317 was capitalized in prior years.

HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2009

## Pension Plan

Schedule of funding progress (dollar amounts in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 7/01/07 | $22,524 | $26,378 | $3,854 | 85.39% | $9,564 | 40.30% |

The GASB requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method was a change made during the year and therefore only the most current year is presented.

HARDIN MEDICAL CENTER AND
HARDIN COUNTY NURSING HOME

CONSOLIDATING STATEMENT OF NET ASSETS

JUNE 30, 2009

| | Medical Center | Nursing Home | Eliminations | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | $ 2,023,698 | $ 349,808 | $ - | $ 2,373,506 |
| Investments - certificates of deposit | 2,680,786 | - | - | 2,680,786 |
| Accounts receivable, net of allowance for | | | - | |
| uncollectible accounts of $9,212,249 | 5,063,718 | 338,991 | - | 5,402,709 |
| Other receivables | 131,972 | - | - | 131,972 |
| Due from intermediaries | 657,211 | - | - | 657,211 |
| Inventories | 1,351,548 | 4,380 | - | 1,355,928 |
| Prepaid expenses | 38,248 | - | - | 38,248 |
| TOTAL CURRENT ASSETS | 11,947,181 | 693,179 | - | 12,640,360 |
| **RESTRICTED ASSETS** | | | | |
| Cash and cash equivalents | - | 62,078 | - | 62,078 |
| Investments - certificates of deposit | 256,992 | - | - | 256,992 |
| TOTAL RESTRICTED ASSETS | 256,992 | 62,078 | - | 319,070 |
| **PLANT IN SERVICE** | 28,472,605 | 1,848,001 | - | 30,320,606 |
| Less: accumulated depreciation | (15,498,667) | (1,358,427) | - | (16,857,094) |
| NET PLANT IN SERVICE | 12,973,938 | 489,574 | - | 13,463,512 |
| **OTHER ASSETS** | | | | |
| Due from Hardin County Nursing Home | 2,830,256 | - | (2,830,256) | - |
| Physician guarantees | 915,457 | - | - | 915,457 |
| Education assistance loans | 62,468 | - | - | 62,468 |
| Trust fund accounts | - | 10,496 | - | 10,496 |
| Utility deposits | 1,850 | - | - | 1,850 |
| TOTAL OTHER ASSETS | 3,810,031 | 10,496 | (2,830,256) | 990,271 |
| TOTAL ASSETS | $ 28,988,142 | $ 1,255,327 | $ (2,830,256) | $ 27,413,213 |
| **LIABILITIES AND NET ASSETS** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Accounts payable | $ 954,203 | $ 52,022 | $ - | $ 1,006,225 |
| Accrued payroll and payroll taxes | 406,490 | 47,655 | - | 454,145 |
| Accrued vacation and holiday | 403,250 | - | - | 403,250 |
| Other accrued expenses | 187,702 | - | - | 187,702 |
| Deferred revenue | 256,992 | 62,078 | - | 319,070 |
| Trust funds | - | 10,504 | - | 10,504 |
| Current portion of long-term obligations | 428,248 | - | - | 428,248 |
| TOTAL CURRENT LIABILITIES | 2,636,885 | 172,259 | - | 2,809,144 |
| **LONG-TERM LIABILITIES, net of current portion** | | | | |
| Due to Hardin Medical Center | - | 2,830,256 | (2,830,256) | - |
| Note payable - TVEC | 197,500 | - | - | 197,500 |
| Capital lease obligation | 586,804 | - | - | 586,804 |
| Bonds payable | 6,635,000 | - | - | 6,635,000 |
| TOTAL LONG-TERM LIABILITIES | 7,419,304 | 2,830,256 | (2,830,256) | 7,419,304 |
| TOTAL LIABILITIES | 10,056,189 | 3,002,515 | (2,830,256) | 10,228,448 |
| **NET ASSETS (DEFICIT)** | | | | |
| Invested in capital assets, net of related debt | 5,126,386 | 489,574 | - | 5,615,960 |
| Unrestricted (Deficit) | 13,805,567 | (2,236,762) | - | 11,568,805 |
| TOTAL NET ASSETS (DEFICIT) | 18,931,953 | (1,747,188) | - | 17,184,765 |
| TOTAL LIABILITIES AND NET ASSETS | $ 28,988,142 | $ 1,255,327 | $ (2,830,256) | $ 27,413,213 |

**The accompanying notes are an integral part of these statements.**

# HARDIN MEDICAL CENTER AND
# HARDIN COUNTY NURSING HOME

## CONSOLIDATING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

### YEAR ENDED JUNE 30, 2009

| | Medical Center | Nursing Home | Eliminations | Total |
|---|---|---|---|---|
| **NET PATIENT SERVICE REVENUE** | $ 25,123,463 | $ 4,663,707 | $ - | $ 29,787,170 |
| **OTHER OPERATING INCOME** | 356,479 | - | (137,204) | 219,275 |
| **TOTAL OPERATING INCOME** | 25,479,942 | 4,663,707 | (137,204) | 30,006,445 |
| **OPERATING EXPENSES** | | | | |
| Salaries | 10,801,203 | 2,239,185 | - | 13,040,388 |
| Benefits | 2,763,295 | 518,588 | - | 3,281,883 |
| Purchased services | 2,462,350 | 303,448 | - | 2,765,798 |
| Consultants | - | 212,364 | (137,204) | 75,160 |
| Insurance | 139,778 | 123,406 | - | 263,184 |
| Supplies | 5,044,108 | 925,031 | - | 5,969,139 |
| Utilities | 166,338 | 198,226 | - | 364,564 |
| Communication | - | 16,200 | - | 16,200 |
| Repairs and maintenance | 831,632 | 87,462 | - | 919,094 |
| Travel and education | 158,420 | 10,365 | - | 168,785 |
| Dues and subscriptions | 79,384 | - | - | 79,384 |
| Equipment rental | 309,472 | - | - | 309,472 |
| Physician recruitment | 483,003 | - | - | 483,003 |
| State license fee | - | 162,425 | - | 162,425 |
| Other expense | 64,776 | 5,596 | - | 70,372 |
| Depreciation and amortization | 1,544,306 | 57,739 | - | 1,602,045 |
| **TOTAL OPERATING EXPENSES** | 24,848,065 | 4,860,035 | (137,204) | 29,570,896 |
| **NET OPERATING INCOME (EXPENSE)** | 631,877 | (196,328) | - | 435,549 |
| **OTHER REVENUE (EXPENSE)** | | | | |
| Interest income | 118,782 | 737 | - | 119,519 |
| Interest expense | (160,170) | - | - | (160,170) |
| Ambulance subsidy | 100,000 | - | - | 100,000 |
| Operating grant | - | 34,922 | - | 34,922 |
| **NET OTHER REVENUE** | 58,612 | 35,659 | - | 94,271 |
| **INCREASE (DECREASE) IN NET ASSETS** | 690,489 | (160,669) | - | 529,820 |
| **NET ASSETS (DEFICIT) - BEGINNING (as restated)** | 18,241,464 | (1,586,519) | - | 16,654,945 |
| **NET ASSETS (DEFICIT) - ENDING** | $ 18,931,953 | $ (1,747,188) | $ - | $ 17,184,765 |

**The accompanying notes are an integral part of these statements.**

**HARDIN MEDICAL CENTER AND**
**HARDIN COUNTY NURSING HOME**

## CONSOLIDATING STATEMENT OF CASH FLOWS

### YEAR ENDED JUNE 30, 2009

| | Medical Center | Nursing Home | Eliminations | Total |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Receipts from patient services | $ 25,826,326 | $ 4,573,735 | $ - | $ 30,400,061 |
| Payments to suppliers | (12,017,439) | (2,547,354) | - | (14,564,793) |
| Payments to employees | (10,896,238) | (2,254,097) | - | (13,150,335) |
| Receipts from other operating activities | 613,471 | - | - | 613,471 |
| **CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | 3,526,120 | (227,716) | - | 3,298,404 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Investments redeemed | 228,481 | - | - | 228,481 |
| Interest income | 118,782 | 737 | - | 119,519 |
| **CASH PROVIDED BY INVESTING ACTIVITIES** | 347,263 | 737 | - | 348,000 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Net advances to Nursing Home | (397,242) | - | 397,242 | - |
| Net receipts from Medical Center | - | 397,242 | (397,242) | - |
| Grant received | - | 97,000 | - | 97,000 |
| Ambulance subsidy | 100,000 | - | - | 100,000 |
| **CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES** | (297,242) | 494,242 | - | 197,000 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Principal paid on long-term debt | (415,953) | - | - | (415,953) |
| Interest paid | (160,170) | - | - | (160,170) |
| Purchases of fixed assets | (1,243,694) | (91,518) | - | (1,335,212) |
| **CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES** | (1,819,817) | (91,518) | - | (1,911,335) |
| **NET INCREASE IN CASH** | 1,756,324 | 175,745 | - | 1,932,069 |
| **CASH AND CASH EQUIVALENTS - BEGINNING** | 267,374 | 236,141 | - | 503,515 |
| **CASH AND CASH EQUIVALENTS - ENDING** | $ 2,023,698 | $ 411,886 | $ - | $ 2,435,584 |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | | | |
| Operating income (loss) | $ 631,877 | $ (196,328) | $ - | $ 435,549 |
| Adjustments to derive cash effect: | | | | |
| Depreciation and amortization | 1,544,306 | 57,739 | - | 1,602,045 |
| Accounts receivable | 751,881 | (118,825) | - | 633,056 |
| Other receivables | (131,972) | - | - | (131,972) |
| Utility deposits | (1,820) | - | - | (1,820) |
| Due from intermediaries | (49,018) | 28,845 | - | (20,173) |
| Inventory | 122,141 | 8,151 | - | 130,292 |
| Prepaid insurance | 17,658 | - | - | 17,658 |
| Physician guarantees | 225,550 | - | - | 225,550 |
| Accounts payable | 319,057 | 7,606 | - | 326,663 |
| Accrued payroll and vacation | (95,035) | (14,912) | - | (109,947) |
| Deferred revenue | 256,992 | - | - | 256,992 |
| Patient trust fund liabilities | - | 8 | - | 8 |
| Other accrued expenses | (65,497) | - | - | (65,497) |
| **CASH PROVIDED (USED) BY OPERATING ACTIVITIES** | $ 3,526,120 | $ (227,716) | $ - | $ 3,298,404 |

The accompanying notes are an integral part of these statements.

HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME
CONSOLIDATING STATEMENT OF CASH FLOWS (continued)
YEAR ENDED JUNE 30, 2009

| | Medical Center | Nursing Home | Eliminations | Total |
|---|---|---|---|---|
| **SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES** | | | | |
| Acquisitions of fixed assets | $ 1,243,694 | $ 91,518 | $ - | $ 1,335,212 |
| Less: financed with capital lease obligations | - | - | - | - |
| Net cash paid for equipment | $ 1,243,694 | $ 91,518 | $ - | $ 1,335,212 |

The accompanying notes are an integral part of these statements.

## HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME

### SCHEDULE OF PLANT IN SERVICE
### (Hardin Medical Center)

### YEAR ENDED JUNE 30, 2009

| | Fixed Assets | | | | Accumulated Depreciation | | | | Capital Invested in Plant |
|---|---|---|---|---|---|---|---|---|---|
| | Beginning Balance | Additions | Retirements | Ending Balance | Beginning Balance | Additions | Retirements | Ending Balance | Ending |
| Land | $ 64,500 | $ 160,000 | $ - | $ 224,500 | $ - | $ - | $ - | $ - | $ 224,500 |
| Land improvements | 317,090 | - | - | 317,090 | 242,505 | 23,812 | - | 266,317 | 50,773 |
| Buildings and improvements | 12,749,310 | 577,352 | - | 13,326,662 | 3,699,302 | 343,286 | - | 4,042,588 | 9,284,074 |
| Fixed equipment | 1,914,240 | - | - | 1,914,240 | 1,628,081 | 73,198 | - | 1,701,279 | 212,961 |
| Major movable equipment | 6,937,861 | 416,367 | - | 7,354,228 | 4,910,429 | 588,185 | - | 5,498,614 | 1,855,614 |
| Equipment - 2003 renovation | 1,449,542 | - | - | 1,449,542 | 695,040 | 199,158 | - | 894,198 | 555,344 |
| Durable medical equipment | 21,988 | - | - | 21,988 | 21,150 | 278 | - | 21,428 | 560 |
| Critical care equipment | 884,595 | - | - | 884,595 | 883,085 | 1,510 | - | 884,595 | - |
| Minor equipment | 113,232 | 6,494 | - | 119,726 | 50,867 | 8,608 | - | 59,475 | 60,251 |
| Automobiles | 15,713 | - | - | 15,713 | 15,713 | - | - | 15,713 | - |
| Assets under capital lease | 2,673,851 | - | - | 2,673,851 | 1,721,200 | 306,271 | - | 2,027,471 | 646,380 |
| Intangible costs | 86,989 | - | - | 86,989 | 86,989 | - | - | 86,989 | - |
| Construction in progress | - | 83,481 | - | 83,481 | - | - | - | - | 83,481 |
| TOTALS | $ 27,228,911 | $ 1,243,694 | $ - | $ 28,472,605 | $ 13,954,361 | $ 1,544,306 | $ - | $ 15,498,667 | $ 12,973,938 |

The accompanying notes are an integral part of these statements.

HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME

SCHEDULE OF PLANT IN SERVICE
(Hardin County Nursing Home)

YEAR ENDED JUNE 30, 2009

| | Fixed assets | | | | Accumulated depreciation | | | | Capital invested in plant - |
|---|---|---|---|---|---|---|---|---|---|
| | Beginning Balance | Additions | Retirements | Ending Balance | Beginning Balance | Additions | Retirements | Ending Balance | Ending |
| Building | $ 829,667 | $ - | $ - | $ 829,667 | $ 617,298 | $ 10,733 | $ - | $ 628,031 | $ 201,636 |
| Equipment | 725,692 | 81,596 | - | 807,288 | 552,325 | 33,561 | - | 585,886 | 221,402 |
| Furniture and fixtures | 201,124 | - | - | 201,124 | 131,065 | 13,445 | - | 144,510 | 56,614 |
| Construction in process | - | 9,922 | - | 9,922 | - | - | - | - | 9,922 |
| | $ 1,756,483 | $ 91,518 | $ - | $ 1,848,001 | $ 1,300,688 | $ 57,739 | $ - | $ 1,358,427 | $ 489,574 |



The accompanying notes are an integral part of these statements.

## HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME

## SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS BY FISCAL YEAR (Hardin Medical Center)

### JUNE 30, 2009

| Year Ending June 30 | Bonds payable Principal | Bonds payable * Interest | Note payable Principal | Note payable Interest | Capital lease obligation Principal | Capital lease obligation Interest |
|---|---|---|---|---|---|---|
| 2010 | $ 216,000 | $ 105,505 | $ 30,000 | $ - | $ 182,248 | $ 24,149 |
| 2011 | 223,000 | 102,179 | 30,000 | - | 188,767 | 17,630 |
| 2012 | 231,000 | 98,745 | 30,000 | - | 195,921 | 10,476 |
| 2013 | 238,000 | 95,187 | 30,000 | - | 202,116 | 4,282 |
| 2014 | 246,000 | 91,522 | 30,000 | - | - | - |
| 2015 | 255,000 | 87,734 | 30,000 | - | - | - |
| 2016 | 263,000 | 83,807 | 30,000 | - | - | - |
| 2017 | 272,000 | 79,757 | 17,500 | - | - | - |
| 2018 | 281,000 | 75,568 | - | - | - | - |
| 2019 | 291,000 | 71,240 | - | - | - | - |
| 2020 | 300,000 | 66,759 | - | - | - | - |
| 2021 | 310,000 | 62,139 | - | - | - | - |
| 2022 | 321,000 | 57,365 | - | - | - | - |
| 2023 | 331,000 | 52,422 | - | - | - | - |
| 2024 | 342,000 | 47,324 | - | - | - | - |
| 2025 | 354,000 | 42,057 | - | - | - | - |
| 2026 | 366,000 | 36,606 | - | - | - | - |
| 2027 | 378,000 | 30,969 | - | - | - | - |
| 2028 | 391,000 | 25,148 | - | - | - | - |
| 2029 | 404,000 | 19,127 | - | - | - | - |
| 2030 | 417,000 | 12,905 | - | - | - | - |
| 2031 | 421,000 | 6,482 | - | - | - | - |
| | $ 6,851,000 | $ 1,350,548 | $ 227,500 | $ - | $ 769,052 | $ 56,537 |

* using the rate in effect at June 30, 2009 (1.54%)

# HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME

## SCHEDULE OF CHANGES IN LONG-TERM DEBT

## YEAR ENDED JUNE 30, 2009

| | Beginning Balance | Advances | Principal Repayments | Ending Balance |
|---|---|---|---|---|
| Bonds payable | $ 7,061,000 | $ - | $ 210,000 | $ 6,851,000 |
| Note payable | 257,500 | - | 30,000 | 227,500 |
| Capital lease obligation | 945,005 | - | 175,953 | 769,052 |
| Totals | $ 8,263,505 | $ - | $ 415,953 | $ 7,847,552 |

The accompanying notes are an integral part of these statements.

## HARDIN MEDICAL CENTER AND HARDIN COUNTY NURSING HOME

## SCHEDULE OF INVESTMENTS

## JUNE 30, 2009

| Description | Certificate number | Interest rate | Principal |
|---|---|---|---|
| Certificate of deposit | 56069 | 2.65% | $ 501,055 |
| Certificate of deposit | 56317 | 2.75% | 228,226 |
| Certificate of deposit | 51952 | 3.50% | 1,066,259 |
| Certificate of deposit | 54481 | 3.50% | 104,763 |
| Certificate of deposit | 17512237736 | 3.65% | 1,037,475 |
| | | | $ 2,937,778 |

# HARDIN COUNTY NURSING HOME
# SCHEDULE OF STATE FINANCIAL ASSISTANCE
# YEAR ENDED JUNE 30, 2009

| Program Title | Contract Number | Beginning Accrued (Deferred) | Cash Receipts | Disbursements / Expenditures | Ending Accrued (Deferred) |
|---|---|---|---|---|---|
| **State Financial Assistance** | | | | | |
| Tennessee Department of Finance and Administration | GR-09-27046 | $ - | $ 97,000 | $ 34,922 | $ (62,078) |
| **TOTAL STATE FINANCIAL ASSISTANCE** | | $ - | $ 97,000 | $ 34,922 | $ (62,078) |

Note 1. Basis of Presentation

The accompanying Schedule of State Financial Assistance is a summary of the activity of the Nursing Home's award programs presented on the accrual basis of accounting in accordance with generally accepted accounting principles. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**The accompanying notes are an integral part of these financial statements.**

WILLIAMS, JERROLDS, GODWIN & NICHOLS, PLLC
Certified Public Accountants
408 Main Street, Savannah, Tennessee 38372 Phone (731) 925-6547 Fax (731) 925-9524

# INDEPENDENT AUDITORS' 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*

Chairman and Board of Directors
Hardin Medical Center
Savannah, Tennessee

We have audited the financial statements of Hardin Medical Center (HMC) (a component unit of Hardin County, Tennessee) and Hardin County Nursing Home (HCNH) (a fund of Hardin Medical Center), collectively referred to as the Medical Center, as of and for the year ended June 30, 2009, and have issued our report thereon dated January 20, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

**2009 – 01 FINANCIAL STATEMENTS MATERIALLY MISSTATED**
The unadjusted financial statements were materially misstated as a result of the allowance for doubtful accounts being understated.

**RECOMMENDATION:** Recent payment history should be analyzed to determine a reasonable estimate and the allowance for doubtful accounts adjusted accordingly.

**MANAGEMENT'S RESPONSE:** Contractual and Bad Debt Calculations are estimates based on current knowledge at the time of the calculation. Management's estimate of Net A/R was based on current collection patterns, while Auditor estimates were based on a much more conservative methodology. Both parties agreed that any difference was in prior years. A new, more conservative methodology has been implemented by management that should alleviate any future differences.

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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that significant deficiency 2009-01 is a material weakness.

## 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards.*

**2009 – 02 CASH COLLATERAL**
Deposits at one bank were not fully collateralized at June 30. Tennessee Code Annotated (TCA) § 9-1-118 requires that deposits in excess of the amount insured by the FDIC be collateralized by securities pledged by the financial institution. The Hospital has obtained collateral for deposits but the amount was insufficient at the end of the year.

**RECOMMENDATION:** Request the financial institution to provide more collateral.

**MANAGEMENT'S RESPONSE::** Cash Balances have increased greatly during the past year. This caused the collateralization to be too low. Accounting will review this requirement each month in the future and assure that we are appropriately collateralized.

The Medical Center's responses to the findings identified in our audit are described above. We did not audit the responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Board of Directors, and the State of Tennessee Comptroller's office and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Jenolds, Godwin & Nutsch, PLLC

January 20, 2010