MAURY REGIONAL HOSPITAL

Audited Combined Financial Statements
(and Other Information)

Years Ended June 30, 2010 and 2009

MAURY REGIONAL HOSPITAL

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Years Ended June 30, 2010 and 2009

Pershing Yoakley & Associates
CERTIFIED PUBLIC ACCOUNTANTS

Pershing Yoakley & Associates, P.C.
One Cherokee Mills, 2220 Sutherland Avenue
Knoxville, TN 37919
(p) (865) 673-0844 (f) (865) 673-0173
(w) www.pyapc.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Maury Regional Hospital:

We have audited the accompanying combined balance sheets of Maury Regional Hospital (the Hospital), a component unit of Maury County, Tennessee, as of June 30, 2010 and 2009 and the related combined statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Maury Regional Hospital as of June 30, 2010 and 2009, 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.

Maury Regional Hospital has not presented a Management Discussion and Analysis (MD&A) as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government Units.* The MD&A is required supplemental information but not a component of the audited combined financial statements.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 12, 2010 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 controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 12, 2010

MAURY REGIONAL HOSPITAL

Combined Balance Sheets

	June 30, 2010	June 30, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 34,846,832**	$ 21,860,535
Certificates of deposit	**5,237,211**	850,551
Investments	**1,510,731**	-
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately $22,500,000 in 2010 and $13,300,000 in 2009	**28,805,056**	35,450,998
Inventories	**5,105,451**	4,331,860
Prepaid expenses	**3,179,010**	1,796,859
Estimated amounts due from third party payors, net	**-**	395,217
Other receivables	**1,130,794**	1,832,002
TOTAL CURRENT ASSETS	**79,815,085**	66,518,022
LONG-TERM INVESTMENTS	**2,749,848**	-
PROPERTY, PLANT AND EQUIPMENT, net	**121,199,400**	130,739,025
OTHER ASSETS		
Debt issue costs, net of accumulated amortization of $213,831 in 2010 and $171,444 in 2009	**256,022**	298,409
Other	**483,378**	905,198
TOTAL OTHER ASSETS	**739,400**	1,203,607
TOTAL ASSETS	**$ 204,503,733**	$ 198,460,654

	June 30, 2010	2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 4,627,180**	$ 6,698,008
Accounts payable and accrued expenses	**9,321,222**	8,037,166
Accrued salaries and wages	**4,557,718**	4,146,546
Accrued compensated absences	**4,313,344**	3,995,173
Accrued workers' compensation	**3,842,792**	4,014,381
Estimated amounts due to third party payors, net	**4,379,952**	-
Interest payable	**153,833**	172,889
TOTAL CURRENT LIABILITIES	**31,196,041**	27,064,163
OTHER LONG-TERM LIABILITIES	**2,183,427**	1,950,000
LONG-TERM DEBT		
Bonds payable	**28,636,698**	34,133,729
Other long-term debt	**1,817,133**	3,510,818
	30,453,831	37,644,547
Less current portion	**(4,627,180)**	(6,698,008)
TOTAL LONG-TERM DEBT	**25,826,651**	30,946,539
COMMITMENTS AND CONTINGENCIES - Note J		
NET ASSETS		
Invested in capital assets, net of related debt	**90,745,569**	93,094,478
Unrestricted	**54,552,045**	45,405,474
TOTAL NET ASSETS	**145,297,614**	138,499,952
TOTAL LIABILITIES AND NET ASSETS	**$ 204,503,733**	$ 198,460,654

MAURY REGIONAL HOSPITAL

Combined Statements of Revenue, Expenses and Changes in Net Assets

	Year Ended June 30, 2010	2009
OPERATING REVENUE		
Net patient service revenue, net of estimated provision for bad debts of approximately $31,560,000 in 2010 and $31,590,000 in 2009	**$ 252,285,547**	$ 243,557,071
Other operating revenue	**5,578,651**	5,867,449
TOTAL OPERATING REVENUE	**257,864,198**	249,424,520
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	**144,888,681**	151,160,386
Supplies	**43,998,068**	46,086,605
Purchased services	**19,658,372**	18,018,093
Professional fees	**6,324,695**	5,853,285
Repairs and maintenance	**2,631,398**	2,566,978
Utilities	**4,959,102**	5,576,622
Leases	**3,894,054**	3,584,918
Insurance	**1,659,421**	2,022,364
Other expenses	**6,203,546**	6,072,338
Depreciation and amortization	**16,632,885**	17,508,496
TOTAL OPERATING EXPENSES	**250,850,222**	258,450,085
INCOME (LOSS) FROM OPERATIONS	**7,013,976**	(9,025,565)
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	**628,788**	628,987
Investment income	**375,950**	184,625
Interest expense	**(1,492,981)**	(1,717,789)
Other	**57,039**	380,771
TOTAL NONOPERATING REVENUE (EXPENSES)	**(431,204)**	(523,406)
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	**6,582,772**	(9,548,971)
Minority interest in losses of subsidiaries	**214,890**	269,810
CHANGE IN NET ASSETS	**6,797,662**	(9,279,161)
NET ASSETS, BEGINNING OF YEAR	**138,499,952**	147,779,113
NET ASSETS, END OF YEAR	**$ 145,297,614**	$ 138,499,952

MAURY REGIONAL HOSPITAL

Combined Statements of Cash Flows

	Year Ended June 30, *2010*	*2009*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from patients and insurance programs	**$ 263,706,658**	$ 256,745,706
Payments to vendors for supplies and other	**(90,200,342)**	(90,605,627)
Payments to employees	**(144,097,500)**	(149,750,283)
Other receipts	**6,587,824**	6,220,139
NET CASH PROVIDED BY OPERATING ACTIVITIES	**35,996,640**	22,609,935
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:		
Contributions and grants	**628,788**	628,987
NET CASH PROVIDED BY NONCAPITAL FINANCIAL ACTIVITIES	**628,788**	628,987
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property, plant and equipment	**(7,337,407)**	(7,948,763)
Proceeds from sale of equipment	**431,787**	176,730
Proceeds from issuance of long-term debt	**-**	50,000
Payments on long-term debt	**(7,023,685)**	(6,514,646)
Interest paid on long-term debt	**(1,512,037)**	(1,752,315)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(15,441,342)**	(15,988,994)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income received on cash and investments	**375,950**	184,625
Proceeds from sale of certificates of deposit	**1,714,026**	1,820,352
Purchase of certificates of deposit	**(6,100,686)**	(1,701,102)
Purchases of investments	**(4,260,579)**	-
Contribution from minority shareholder	**73,500**	245,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(8,197,789)**	548,875

		Year Ended June 30,		
		2010		***2009***
INCREASE IN CASH AND CASH EQUIVALENTS		**12,986,297**		7,798,803
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**21,860,535**		14,061,732
CASH AND CASH EQUIVALENTS, END OF YEAR	**$**	**34,846,832**	$	21,860,535
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Income (loss) from operations	**$**	**7,013,976**	$	(9,025,565)
Adjustments to reconcile loss from operations to net cash provided by operating activities:				
Depreciation and amortization		**16,632,885**		17,508,496
Estimated provision for uncollectible accounts		**31,558,791**		31,587,472
Changes in:				
Patient accounts receivable		**(24,912,849)**		(18,256,758)
Inventories		**(773,591)**		248,864
Prepaid expenses		**(1,382,151)**		477,626
Estimated amounts due to/from third party payors		**4,775,169**		(537,296)
Other assets		**1,009,173**		747,907
Accounts payable and accrued expenses		**1,284,056**		(1,550,914)
Accrued salaries and wages		**411,172**		37,365
Accrued compensated absences		**318,171**		(61,339)
Accrued workers' compensation		**(171,589)**		984,077
Other long-term liabilities		**233,427**		450,000
TOTAL ADJUSTMENTS		**28,982,664**		31,635,500
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$**	**35,996,640**	$	22,609,935

NOTE A--ORGANIZATION

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

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

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

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

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

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

NOTE A--ORGANIZATION - Continued

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

Maury Regional Healthcare Foundation is a not-for-profit organization formed in 2007 to coordinate the fundraising activities of the Hospital.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Recently Issued or Effective Accounting Pronouncements: Effective September 2009, the FASB Accounting Standards Codification (ASC), also known collectively as the "Codification," became the single source of authoritative U.S. accounting and reporting standards, except for authoritative pronouncements, rules and interpretive releases issued by the GASB if the organization is a governmental entity. FASB ASC 105-10, *Generally Accepted Accounting Principles*, became applicable during fiscal year 2010. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references.

In March 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (the GASB Codification)*. This Statement became effective upon issuance and addresses three issues not included in the authoritative literature that establishes accounting principles - related party transactions, going concern considerations, and subsequent events. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. The Hospital evaluated related party transactions and determined that they are in compliance with all accounting and financial reporting standards. In addition, management has determined there are no substantial doubts regarding the Hospital's ability to continue as a going concern. This Statement also establishes general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued. The Hospital evaluated all events or transactions that occurred after June 30, 2010, through October 12, 2010, the issuance date of the

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

combined financial statements. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2010 combined financial statements.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement is effective for years beginning after June 15, 2009 and provides guidance on financial statement recognition and amortization of certain intangible assets. The requirements of this Statement were adopted by the Hospital in fiscal year 2010 and the adoption did not have a material impact on the combined financial statements.

The Hospital adopted the applicable provisions of FASB ASC 820, *Fair Value Measurement and Disclosure* (FASB ASC 820), during 2009, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosure about fair value measurements. FASB ASC 820 only applies to fair value measurements that are already required, or permitted, by other accounting standards. There was no significant impact on the combined financial statements from adopting this standard (Note K).

In January 2010, FASB issued Accounting Standard Update 2010-06, *Improving Disclosures about Fair Value Measurements*, as it relates to FASB ASC 820. This Update provides amendments to FASB ASC 820 that requires both new disclosures and further clarifies existing disclosures. This Update is effective for years beginning after December 15, 2009, except for disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which is effective for years beginning after December 15, 2010. Management of the Hospital is evaluating the impact of this Update on the combined financial statements but does not anticipate any material impact upon adoption.

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

Cash and Cash Equivalents: Cash and cash equivalents include investments with a maturity of three months or less when purchased.

Inventories: Inventories consist principally of medical and surgical supplies and are reported at the lower of cost or market, with cost determined by the average cost method.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Investments: Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses (realized and unrealized) are included in investment income.

Property, Plant and Equipment: Property, plant and equipment is reported at cost or fair value at date of gift, if donated. The Hospital has established a capitalization threshold of $1,000. Depreciation is calculated by the straight-line method to allocate the cost of the assets (other than land) over their estimated useful lives which ranges from 3 to 20 years for equipment and 10 to 40 years for buildings and land improvements. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the useful life or the lease term. This amortization is included with depreciation expense and as part of accumulated depreciation in the combined financial statements.

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

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

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

Compensated Absences: The Hospital's employees earn paid time off at varying rates depending on years of service. An accrual for paid time off is recorded in the period in which the employee earns the right to the compensation. Employees also earn sick leave benefits based on varying rates depending on years of service and may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire after the age of sixty may convert accumulated sick leave to termination payments. The estimated amount of sick leave payable as termination payments is reported as a noncurrent liability in the combined financial statements. Due to uncertainties in this estimate, it is at least reasonably possible that management's estimate could change in 2011.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

Contributions and Grants: Revenues from contributions and grants are recognized when all eligibility requirements, including time requirements are met. Contributions and grants may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Income Taxes: The Hospital is a not-for-profit entity in accordance with Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital meets the Internal Revenue Service definition of a governmental unit and is exempt from filing a Form 990 based on Internal Revenue Procedure 95-48. Certain combined entities are taxable for federal purposes and account for income taxes in accordance with FASB ASC 740, *Income Taxes*. Due to current year and prior year operating losses, no tax expense or benefit has been recognized in the accompanying combined financial statements.

Reclassifications: Certain reclassifications have been made to the 2009 combined financial statements to conform with the 2010 presentation.

NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The Hospital has agreements with various third party payors that provide for payments to the Hospital at amounts different from established rates. The difference between the rates charged and the estimated payments from third party payors is recorded as a reduction of gross patient service charges. Revenue for patient service charges have been adjusted to the amounts estimated to be receivable under third party payor arrangements. Amounts recorded under these contractual arrangements are subject to review and final determination by various program intermediaries. Management believes that adequate provision has been made for any adjustments which may result from such reviews. However, due to uncertainties in the estimates, it is at least reasonably possible that management's estimates will change in 2011. Net patient service revenue for the years ended June 30, 2010 and 2009 was increased by approximately $1,050,000 and $680,000, respectively, due to adjustments of estimates or final settlements of prior periods.

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

Medicare: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid primarily on a prospective basis. These rates vary according to a patient classification system that is based on clinical diagnosis, procedures utilized and other factors. The Medicare program continues to reimburse certain other services based on a per diem or on a percentage of cost up to predetermined limits. The Hospital also receives additional payments from the Medicare program for providing services to a disproportionate share of Medicaid (TennCare) and other low income patients. Approximately $9,500,000 and $9,200,000 of net patient accounts receivable are due from the Medicare program at June 30, 2010 and 2009, respectively.

TennCare: The State of Tennessee's Medicaid waiver program (TennCare) provides coverage through several managed care organizations. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts. Approximately $1,900,000 and $2,400,000 of net patient accounts receivable are from the TennCare program at June 30, 2010 and 2009, respectively. During 2010 and 2009 the Hospital received additional distributions under the TennCare Essential Access program totaling approximately $1,350,000 and $1,530,000, respectively. Future distributions under this program are not guaranteed.

Other: The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates, discounts from established charges, and prospectively determined per diem amounts.

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

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

	Year Ended June 30	
	2010	***2009***
Patient service charges	$ 658,588,796	$ 605,626,458
Estimated contractual adjustments	(361,995,480)	(318,093,517)
Estimated provision for bad debts	(31,558,791)	(31,587,472)
Charity care	(12,748,978)	(12,388,398)
	$ 252,285,547	$ 243,557,071

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

The carrying amount of deposits and investments included in the Hospital's balance sheets is as follows:

	2010	***2009***
Deposits	$ 40,084,043	$ 22,711,086
Investments	4,260,579	-
	$ 44,344,622	$ 22,711,086

The Hospital holds deposits only in banks participating in the State of Tennessee Collateral Pool, in banks that provide collateral for all deposits, or banks that are members or the Federal Deposit Insurance Corporation (FDIC). Additionally, the Hospital's deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. Certificates of deposit in excess of the FDIC insurance limit must be issued by a bank that is a member of the Certificate of Deposit Account Registry Service.

At June 30, 2010, the Hospital's bank balances for deposits totaled $43,641,661, a majority of which was insured by the FDIC or by the bank's participation in the State of Tennessee's collateral pool. Deposits totaling $1,482,159 are collateralized by securities held by the financial institution in the Hospital's name.

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

The estimated fair values and maturities for investments at June 30, 2010 are as follows:

Investment Type	*Carrying Amount*	*Investment Maturities* Less than 1 year	*Investment Maturities* 1-5 years
Mutual funds - fixed income	$ 1,510,731	$ 1,510,731	$ -
Government agency bonds	2,511,100	-	2,511,100
Corporate bonds	238,748	-	238,748
	$ 4,260,579	$ 1,510,731	$ 2,749,848

Interest Rate Risk: As a means to limiting its exposure to fair value losses by rising interest rates, the Hospital's investment policy limits investment in U.S. treasury securities, government agency bonds or notes, corporate bonds, and municipal bonds to those with maturities of less than five years.

Credit Risk: The Hospital's investment policy restricts investments in corporate bonds and municipal bonds to those with a credit rating of at least AA. At June 30, 2010, the Hospital's investment in corporate bonds were rated AAA by Standard and Poor's.

Concentration of Credit Risk: The Hospital's investment policy limits investments in corporate bonds to 50% of total investments with no individual security exceeding 5% of total investments and municipal bonds to 25% of total investments with no individual security exceeding 5% of total investments. There is no limit on investments in U.S. treasury securities, government agency bonds or notes. Mutual funds containing corporate bonds should not exceed 50% of total investments.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will be able to recover the value of its investment or collateral. All investments are in the Hospital's name at a custodial bank.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

A summary of changes in properties and related accumulated depreciation for the years ended June 30, 2010 and 2009 is as follows:

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

	Balance July 1, 2009	Additions/ Transfers	Retirements	Balance June 30, 2010
Capital assets being depreciated				
Land improvements	$ 5,421,136	$ 3,480	$ -	$ 5,424,616
Buildings	163,923,772	2,528,477	-	166,452,249
Equipment	130,844,689	4,949,339	(1,748,723)	134,045,305
Total capital assets being depreciated	300,189,597	7,481,296	(1,748,723)	305,922,170
Less accumulated depreciation for:				
Land improvements	3,360,964	178,574	-	3,539,538
Buildings	72,154,230	7,177,222	-	79,331,452
Equipment	100,281,020	9,132,507	(1,359,994)	108,053,533
Total accumulated depreciation	175,796,214	16,488,303	(1,359,994)	190,924,523
Total capital assets being depreciated, net	124,393,383	(9,007,007)	(388,729)	114,997,647
Capital assets not being depreciated				
Land	5,098,378	-	-	5,098,378
Construction in progress	1,247,264	(143,889)	-	1,103,375
Total capital assets not being depreciated	6,345,642	(143,889)	-	6,201,753
Total capital assets, net	$ 130,739,025	$ (9,150,896)	$ (388,729)	$ 121,199,400

	Balance July 1, 2008	Additions/ Transfers	Retirements	Balance June 30, 2009
Capital assets being depreciated				
Land improvements	$ 5,421,136	$ -	$ -	$ 5,421,136
Buildings	158,917,834	5,005,938	-	163,923,772
Equipment	124,240,848	8,564,992	(1,961,151)	130,844,689
Total capital assets being depreciated	288,579,818	13,570,930	(1,961,151)	300,189,597
Less accumulated depreciation for:				
Land improvements	3,179,219	181,745	-	3,360,964
Buildings	65,209,763	6,944,467	-	72,154,230
Equipment	91,526,864	10,657,057	(1,902,901)	100,281,020
Total accumulated depreciation	159,915,846	17,783,269	(1,902,901)	175,796,214
Total capital assets being depreciated, net	128,663,972	(4,212,339)	(58,250)	124,393,383
Capital assets not being depreciated				
Land	5,042,873	55,505	-	5,098,378
Construction in progress	5,712,655	(4,465,391)	-	1,247,264
Total capital assets not being depreciated	10,755,528	(4,409,886)	-	6,345,642
Total capital assets, net	$ 139,419,500	$ (8,622,225)	$ (58,250)	$ 130,739,025

During 2010 and 2009, the Hospital capitalized interest expense on construction projects totaling approximately $28,000 and $75,000, respectively. Construction in progress at June 30, 2010

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

consists primarily of facility renovations and total estimated costs required to complete construction in progress amounted to approximately $3,900,000.

NOTE F--LONG-TERM DEBT

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

	2010	*2009*
Bonds Payable:		
Series 2006B, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 4.00% to 4.25%, maturing over a 7-year period, with the final payment due June 1, 2014.	$ 4,935,000	$ 6,050,000
Series 2006, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 4.50% to 5.00%, maturing over a 15-year period, with the final payment due June 1, 2021.	15,520,000	15,620,000
Series 2005, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 3.25% to 4.00%, maturing over a 15-year period, with the final payment due June 1, 2020.	3,110,000	4,975,000
Series 2004B, Maury County General Obligation Refunding Bonds issued on behalf of the Hospital, with an interest rate of 5.00%, maturing over a 10-year period, with the final payment due April 1, 2014.	4,225,000	6,475,000
Total bonds payable	27,790,000	33,120,000
Unamortized loss on refunding	(146,030)	(185,856)
Unamortized premiums	992,728	1,199,585
Total bonds payable, net of unamortized loss and premiums	28,636,698	34,133,729

NOTE F--LONG-TERM DEBT - Continued

	2010	2009
Other Long-term Debt:		
Notes payable with interest rates ranging from 5.8% to 6.38% maturing through January, 2014 and secured by equipment and property with a net book value of $184,842 at June 30, 2010	214,649	817,218
Line of credit with interest rate of 5.25% due in 2012, maximum available of $775,000	735,243	745,353
Capital lease obligations - see Note H	867,241	1,948,247
Total other long-term debt	1,817,133	3,510,818
	30,453,831	37,644,547
Less: current portion	4,627,180	6,698,008
	$ 25,826,651	$ 30,946,539

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

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

The Hospital's scheduled principal maturities on all long-term debt as of June 30, 2010 (including the capital lease obligations and excluding unamortized premiums and loss on refunding) follows:

NOTE F--LONG-TERM DEBT - Continued

Year Ending June 30	*Principal*	*Interest*
2011	$ 4,627,180	$ 1,312,063
2012	4,927,369	1,109,011
2013	4,045,897	891,315
2014	4,166,689	712,800
2015	1,725,000	521,528
2016-2020	8,779,998	1,420,900
2021	1,335,000	58,407
	$ 29,607,133	$ 6,026,024

A schedule of changes in long-term debt for the years ended June 30, 2010 and 2009 is as follows:

	Balance July 1, 2009	*Additions/ Amortization*	*Payments/ Maturities*	*Balance June 30, 2010*	*Amounts Due Within One Year*
Bonds payable	$ 33,120,000	$ -	$ (5,330,000)	$ 27,790,000	$ 3,845,000
Unamortized loss on refunding	(185,856)	39,826	-	(146,030)	-
Unamortized premiums	1,199,585	(206,857)	-	992,728	-
Other long-term debt	3,510,818	-	(1,693,685)	1,817,133	782,180
	$ 37,644,547	$ (167,031)	$ (7,023,685)	$ 30,453,831	$ 4,627,180

	Balance July 1, 2008	*Additions/ Amortization*	*Payments/ Maturities*	*Balance June 30, 2009*	*Amounts Due Within One Year*
Bonds payable	$ 38,235,000	$ -	$ (5,115,000)	$ 33,120,000	$ 5,330,000
Unamortized loss on refunding	(225,682)	39,826	-	(185,856)	-
Unamortized premiums	1,406,442	(206,857)	-	1,199,585	-
Other long-term debt	3,648,183	1,262,281	(1,399,646)	3,510,818	1,368,008
	$ 43,063,943	$ 1,095,250	$ (6,514,646)	$ 37,644,547	$ 6,698,008

NOTE G--EMPLOYEE BENEFIT PLANS

Defined Benefit Plan: Prior to May 1, 1997, all employees of the Hospital were eligible to participate in the Maury Regional Hospital Retirement Plan (the Plan), a single-employer public retirement system (PERS), accounted for as a separate entity from the Hospital. The purpose of the Plan is to provide retirement, death, and certain other benefits to employees as specified in the Plan.

The actuarial method generally employed to determine contributions to the Plan is the entry age normal actuarial cost method. Although it has not expressed any intention to do so, the Hospital has

NOTE G--EMPLOYEE BENEFIT PLANS - Continued

the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA. The Plan issues separate financial statements which may be obtained from the Hospital.

The Plan was amended effective May 1, 1997 to stop accrual of benefit service on April 30, 1997 for participants who made an irrevocable election to participate in the Maury Regional Healthcare System 403(b) Plan on May 1, 1997. As of May 1, 2010, 140 participants are earning future service accruals. Employees hired after May 1, 1997, are not eligible to participate in the Plan.

Defined Benefit Plan Funding Policy: Voluntary contributions may not be made by participants. The Hospital's contributions are based on an actuarially determined rate. The Hospital's annual pension cost for 2010 was $785,010. The Hospital's net pension obligation to the Plan for 2010 and 2009 was zero. The annual required contribution for the current year was determined as part of the May 1, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions used included the following:

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

Three-Year Trend Information

Fiscal Year	*Annual Required Contribution*	*Percentage Contributed*	*Pension Obligation*
April 30, 2008	$ -	100.00%	$ -
April 30, 2009	-	100.00%	-
April 30, 2010	785,010	100.00%	-

A schedule of funding progress for the Plan follows:

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded AAL (UAAL) (b-a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as a % of Covered Payroll (b-a)/c*
May 1, 2008*	43,136,990	41,325,850	$ (1,811,140)	104.4%	6,645,042	-27.3%
May 1, 2009*	38,788,798	42,379,105	3,590,307	91.5%	6,225,197	57.7%
May 1, 2010*	39,793,024	43,271,426	3,478,402	92.0%	5,423,206	64.1%

*Entry age normal actuarial method utilized for determining the unfunded actuarial liability.

NOTE G--EMPLOYEE BENEFIT PLANS - Continued

The unfunded actuarial accrued liability as of May 1, 2010 will be amortized as a level percentage of covered payroll over 30 years beginning in fiscal 2010.

Defined Contribution Plan: Effective May 1, 1997, the Hospital implemented a defined contribution plan which includes a 403(b) feature and an employer matching provision and covers substantially all hourly and salaried employees. Voluntary contributions may be made by the participants as a percentage of annual compensation not to exceed Internal Revenue Service limits. The Hospital's contribution consists of a base contribution of 3% of annual covered compensation and a matching contribution equal to 50% of the employees' first 5% of annual compensation contributed. The Hospital's total contributions for the years ended June 30, 2010 and 2009 amounted to approximately $3,480,000 and $3,520,000, respectively.

NOTE H-- LEASES

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

	2010	*2009*
Equipment acquired under capital leases	$ 3,145,576	$ 4,170,995
Less accumulated amortization	(2,423,938)	(2,422,971)
	$ 721,638	$ 1,748,024

The following is a schedule of the future minimum lease payments required under capital leases as of June 30, 2010:

Year Ending June 30,	
2011	$ 644,705
2012	257,540
Total minimum lease payments	902,245
Amount representing interest	(35,004)
Present value of minimum lease payments	$ 867,241

Operating Leases: The Hospital also rents office space and equipment under various non-cancelable operating lease agreements with varying terms. Rent expense under operating lease agreements totaled approximately $3,890,000 and $3,580,000 for the years ended June 30, 2010 and 2009, NOTE H--LEASES - Continued

respectively. Future minimum lease commitments for all significant non-cancelable operating leases are as follows:

Year Ending June 30,		
2011	$	2,756,455
2012		2,425,868
2013		1,840,809
2014		1,261,683
2015		905,808
Thereafter		138,988
	$	9,329,611

Leases with Physicians: The Hospital leases office space in its medical office buildings to physicians under non-cancelable operating leases with varying terms. Rental income under these lease agreements totaled approximately $1,190,000 and $1,370,000 for the years ended June 30, 2010 and 2009, respectively. Future minimum lease commitments to the Hospital for all significant non-cancelable operating leases are as follows:

Year Ending June 30,		
2011	$	692,956
2012		98,360
2013		51,405
	$	842,721

NOTE I--LEASED HEALTHCARE FACILITIES

Effective July 1, 2005, the Hospital entered into the first of two 5-year renewal options provided under a lease arrangement with the Board of Trustees of Wayne County General Hospital for the operation of several Wayne County healthcare facilities, including the county hospital, nursing home, ambulance service and medical office buildings. The lease also extends to all equipment, improvements, fixtures and related personal property. The annual lease expense under the first renewal consists of a base rent of $175,000 and an annual capital improvement commitment of $175,000. Effective July 1, 2010, the lease was amended to exclude the operations of the nursing home. The annual lease expense, as amended, is $150,000 for the first year and an annual capital improvement commitment of $200,000. The amended lease provides for two-five year

NOTE I--LEASED HEALTHCARE FACILITIES - Continued

renewal options which occur automatically unless the Hospital provides notice of its intent to terminate the lease at least 180 days in advance.

NOTE J--COMMITMENTS AND CONTINGENCIES

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

Malpractice Liability Claims: The Hospital is subject to claims and suits arising in the ordinary course of business from services provided to patients. Losses against the Hospital are limited by the Tennessee Governmental Tort Liability Act to $350,000 for injury or death per person and $700,000 per occurrence. However, claims against healthcare practitioners are not subject to these limits. The Hospital maintains professional liability insurance on a claims made basis with limits of $1,000,000 per occurrence with a retention of $250,000 per claim and a $3,000,000 annual aggregate with a $750,000 annual aggregate retention. The Hospital has estimated and recorded a liability for reported claims totaling approximately $1,290,000 and $1,300,000 at June 30, 2010 and 2009, respectively. In management's opinion, the Hospital is currently not a party to any proceeding, the ultimate resolution of which will have a material adverse effect on the Hospital's results of operations or financial condition. The Hospital has not estimated any liability for incurred but not reported claims.

Workers' Compensation Claims: The Hospital is covered for workers' compensation claims through an insurance policy with a deductible of $500,000 per claim. Management has recorded an accrual for the estimated liability related to claims reported as of June 30, 2010 and 2009. The Hospital has not estimated any liability for incurred but not reported claims.

Healthcare Benefits: The Hospital maintains a partially self-insured healthcare plan to provide reimbursement for covered expenses incurred as a result of illness or injury to covered employees and dependants. Stop-loss insurance is purchased for annual claims per individual exceeding $175,000 in both 2010 and 2009 with a life time maximum per individual totaling $850,000. The Hospital has estimated and recorded a liability for healthcare claims incurred but not yet reported totaling approximately $1,640,000 and $1,610,000 at June 30, 2010 and 2009. Employees that retire after attaining age sixty and completing twenty years of service will receive continued coverage under the Hospital's health benefit program until they attain age sixty-five or become eligible for Medicare benefits. The estimated amount of retirement benefits payable totaled approximately $300,000 at both June 30, 2010 and 2009 and is reported as a noncurrent liability in the combined financial statements. Due to uncertainties in the estimate, it is at least reasonably possible that management's estimate could change in 2011.

NOTE J--COMMITMENTS AND CONTINGENCIES - Continued

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under the provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare Recovery Audit Contractor Program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

NOTE K--FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that carrying value approximates fair value for the majority of the Hospital's financial assets and liabilities. The estimated fair value of bonds payable, which are general obligation bonds of Maury County, is $28,355,473 at June 30, 2010.

Generally accepted accounting principles establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Hospital's investments are reported at fair value on a recurring basis based on Level 1 inputs at June 30, 2010.

Other Information

Pershing Yoakley & Associates
CERTIFIED PUBLIC ACCOUNTANTS

Pershing Yoakley & Associates, P.C.
One Cherokee Mills, 2220 Sutherland Avenue
Knoxville, TN 37919
(p) (865) 673-0844 (f) (865) 673-0173
(w) www.pyapc.com

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

To the Board of Trustees of
Maury Regional Hospital:

We have audited the combined financial statements of Maury Regional Hospital (the Hospital) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated October 12, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's combined financial statements are free of material misstatement we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management and the Board of Trustees in a separate letter dated October 12, 2010.

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

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 12, 2010