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

Financial Statements and Supplemental Schedules

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

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

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

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

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Henry County Medical Center
Paris, Tennessee:

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Henry County Medical Center as of June 30, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 16, 2010 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2010 audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Medical Center's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 16, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of Henry County Medical Center (HCMC), we offer readers of the financial statements this narrative overview and analysis of the financial performance during the years ended June 30, 2010 and 2009. Please read this analysis in conjunction with the financial statements.

STATISTICAL HIGHLIGHTS

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

Table 1

Statistics

	FYE 2010	FYE Budget	FYE 2009	FYE 2010 vs. Budget	FYE 2010 vs. FYE 2009
Admissions	4,180	4,803	4,490	(13%)	(7%)
Average Daily Census	51	61	54	(16%)	(6%)
Surgeries	5,266	5,493	5,054	(4%)	4%
Emergency Visits	17,657	17,465	17,432	1%	1%
Outpatient Visits	112,588	101,625	101,625	11%	11%

Growth is the result of development of service lines. The aging of the population in the service area of HCMC promotes gradual growth for the hospital. Recruiting efforts are on-going and are also key to growth. Two new physicians were brought to the area. The Hospitalist and Psychiatric Programs are fully established and show growth rates of 16% and 72%, respectfully. Admissions experienced a decline for the year. This is a result of current economic conditions resulting from the recession and changes in insurance policy for inpatient versus outpatient status of the patient. While our admissions decreased, our observation patients grew 16%. Observation patients are generally classified as a hospital stay of less than 48 hours.

FINANCIAL HIGHLIGHTS

Table 2

Consolidated Financial Highlights (000s)

	FYE 2010	FYE 2009	Change $	Change %
Operating Revenues	66,980	65,776	1,204	1.8%
Operating Expenses	66,161	66,526	(365)	(0.5%)
Net Income (loss)	1,068	(456)	1,524	334%

1) Consolidated Operating Revenues increased in FYE 2010 by $1,204,000 or 1.8% compared to an increase in FYE 2009 of $44,000 or 0.1%. The increase in the operating revenues of FYE 2010 to FYE 2009 is due to efficiencies gained thorough a documentation improvement project and service line improvement for psychiatric services.
2) Consolidated Operating Expenses decreased by $365,000 or 0.5% in FYE 2010 compared to an increase in FYE 2009 of 4.5% or $2,887,000. The primary decrease in FYE 2010 operating expenses is attributed to professional fees for the hospitalist and psychiatric programs. These cost decreases are due to changes in program services. These services are now managed in-house and have growth in capacity over the prior year. The Hospitalist program has a 16% growth rate and psychiatric services a 72% growth rate.
3) Consolidated Net Income was 1,068,000 for FYE 2010 or 334% higher than the FYE 2009 loss of ($456,000). The hospital's net income was $1,164,561 in FYE 2010 versus a loss ($375,079) in FYE 2009, which is an increase of 410%. The nursing home's net income was $222,213 in FYE 2010 versus a FYE 2009 net income of $178,985, which is a 24% increase. The EMS Agency's net loss was ($319,215) in FYE 2010 versus a net loss of $(260,032) in FYE 2009, which is a 23% increase in the loss.

USING THIS REPORT

The financial statements consist of three statements

- A Statement of Net Assets, a Statement of Revenue, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

STATEMENTS OF NET ASSETS AND STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the financial statements will follow and we will answer with this analysis "Is Henry County Medical Center in a better financial position or a worse financial position as a result of this year's activities?" The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets, will provide information that will answer this question.

The two statements reflect the net assets and the changes in such. Net assets are defined as the differences between assets and liabilities and are used as a measure of the financial health of our facilities. Over time, increases and decreases in the net assets is one of the indicators as to whether we are improving or deteriorating. Financial profits create directly proportional increases in net assets where financial losses cause equal decrease in net assets.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and financing activities. It provides answers to questions such as "Where did our cash come from?" "What was the cash used for?" and "Did our cash balance increase or decrease during the reporting period?"

HCMC'S NET ASSETS

The net assets are the difference between assets and liabilities reported in the Statement of Net Assets on page 14. The net assets increased by $1,068,000 or by 2% in FYE 2010 versus a decrease of 0.9% or $456,000 in FYE 2009. This increase indicates a growth in assets in the facilities. Table 1 below reflects the balance of assets, liabilities, and net assets as of FYE 2010 and FYE 2009. It is important to note that strengthening of net asset balances and financial health is directly driven by the financial profits from operations as well as the investments of assets.

	FYE 2010	FYE 2009
Assets:		
Current Assets	$14,691,524	$15,398,001
Net Property & Equipment	37,128,995	39,214,904
Long Term Investments	7,604,112	7,521,838
Assets Limited to Use	14,219,141	10,701,000
Other Assets	955,508	776,277
Total Assets	$74,599,280	$73,612,020
Liabilities:		
Current Liabilities	$ 7,666,034	$ 7,048,891
Long-Term Debt	13,418,250	14,315,000
Other Long-Term Liabilities	199,308	-
Total Liabilities	$21,283,592	$21,363,891
Net Assets:		
Investment in Capital Assets Net of Debt	$22,657,745	$24,017,904
Unrestricted Net Assets	30,657,943	28,230,225
Total Net Assets	$53,315,688	$52,248,129

The increase in net assets in FYE 2010 can be seen above as increases in long term investments, assets limited to use, and other assets. These increases account for most of the growth in operations for FYE 2010.

OPERATING INCOME

The Statement of Revenue, Expenses, and Changes in Net Assets on page 15 and Table 3 below reflect the operating results for FYE 2010 and FYE 2009.

TABLE 3

	FYE 2010	FYE 2009
Operating revenues		
Net patient service revenue	$65,556,492	$64,463,729
Other revenue	1,423,049	1,312,581
Total operating revenue	$66,979,541	$65,776,310
Operating expenses:		
Salaries and benefits	$37,805,642	$36,785,564
Medical Supplies and Drugs	14,040,641	14,061,707
Depreciation and amortization	4,694,396	4,642,244
Other operating expense	9,620,098	11,036,710
Total Operating Expenses	$66,160,777	$66,526,225
Operating Income	$818,764	($749,915)
Non Operating Income-Investments	$248,795	$293,789
Excess of Revenue over Expenses	$1,067,559	($456,126)

As can be seen above, we realized an increase of $1,523,685 or 334% in excess revenues over expenses for FYE 2010 over FYE 2009. While operating revenue increased 2%, total operating expenses decreased 0.5%. These variances are explained in the following paragraphs.

Patient Service net revenues increased only 1.7% during FYE 2010. This increase in patient service revenue is directly attributed to the increase in patient service volumes from surgery and outpatient activity at the hospital, and service line improvements of efficiencies with the hospitalist and psychiatric services. A documentation improvement program was also implemented to gain efficiencies in the revenue cycle.

Other revenue increased by 8% in FYE 2010. This is due to several revenue streams such as cafeteria sales, rental income and joint venture earnings.

Salary and benefits costs increased 3% in FYE 2010. The increase is a reflection of 3% salary increase stemming from employment of physicians in the hospitalist program. We also recognized a 1.5% increase in benefits costs associated with health claims.

Medical supply and drug expenses decreased by less than 1% in FYE 2010. Medical supplies and drug expense as a percentage to total operating revenues is 21% for FYE 2010, and 22% for FYE 2009. Medical supply and drug expense consistencies are related to management's cost control measures.

Depreciation and amortization costs increased 1% during FYE 2010. This is due reductions in our capital spending plan. Capital purchases were $675,000 less than prior year. The FYE 2010 incurred a capital expenditure program totaling $2,358,487 for equipment, information technology, and renovation purchases.

Other operating expenses decreased 13% during FYE 2010. This is due to decreases in various expense items. Other professional fees decreased 36% due to the elimination of management fees with the hospitalist and psychiatric programs. Utilities decreased 14% due to reduced costs of fuel and electricity. Insurance decreased 23% due to the improvement in claims activities and rates in the market. Interest expense decreased 72% as a result of market changes in variable interest rates.

Bad Debt expenses (recorded as a reduction to net patient service revenue) increased $1,649,265 during FYE 2010 or 36% over prior year. Bad Debt expense as a percent of net patient service revenue is 9.5% compared to 7.1% in FYE 2009. The stagnation of the economy has impacted collections of co-pays, deductibles, and services. During the year, HCMC revised its charity and collections polices that should qualify more for charity coverage.

In summary, total operating revenue increased 2% and total operating expenses decreased 0.5% during FYE 2010. The results are an increase in operating income of $1,568,679 or 209% for FYE 2010.

Non-operating income or investment income decreased ($44,994) or (15%) during FYE 2010. This is a reflection of the economy with a drop in interest rates.

We continue to be fortunate to have assets to invest in physician recruiting and growth programs such as the hospitalist and psychiatric programs. We continue to work to improve services and productivity, to contain costs and to promote growth and efficiencies.

Due to ongoing pressure in our economy and reimbursement rates, and due to increased costs associated with pharmacy, implantable devices, and increased capital investment for technology and expansion, we expect to be challenged. We feel that it is imperative that we closely manage our controllable costs in order to improve our level of profitability.

Our plan in future years is to build profit from our operations so that we can meet the capital requirements that stem from the growing healthcare needs of the patient population that we serve.

HCMC CASH FLOW

The Statement of Cash Flows on page 16 provides information regarding the sources and uses of cash during FYE 2010 and FYE 2009. Henry County Medical Center saw an increase in cash flow in FYE 2010 versus FYE 2009. This is the result of driving efficiencies in revenue collections and controlling costs.

The net cash provided by operations was $6,763,497 in FYE 2010 versus $4,222,325 in FYE 2009. HCMC used the majority of the cash in the following manner, which yielded a net increase in cash of $430,424.

	FYE 2010
Principal Payment on debt	$975,750
Property and Equipment Purchases	$2,358,487
Investment Activities	$2,942,191

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

At the end of FYE 2010, Henry County Medical Center had invested $37,128,995 in capital assets net of depreciation. This represents a decrease over the FYE 2009 amount of $2,085,909 or 5%. This decrease is due to spending approximately $675,000 less in capital purchases than in years past and the continuation of depreciating assets. The summary of Capital Assets can be found in note 6 on pages 24-25.

Debt:

As of fiscal year end 2010, Henry County Medical Center has $14,471,250 in long-term debt. This is a decrease of $725,750 over the FYE 2009 long-term debt balance of $15,197,000. This decrease is the net result from the payment of principal on the loan agreements, and the addition of a $250,000 loan. The summary of long-term debt is in note 7 of the financial statements on pages 25-26.

OTHER ECONOMIC FACTORS

FYE 2009 and FYE 2010 continues with unstable economic conditions. The local area is impacted by the global recession, rising costs of recruiting physicians, and the rising cost of materials like drugs, implants, fuel and energy. The global recession impacts patients spending abilities and the differing of health care needs.

We as a community healthcare provider strive to help recruit industry and attract retirement ventures to the area by continuing to offer quality healthcare at an affordable price.

CONTRACTING HCMC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of HCMC finances and to show good stewardship of the resources we possess. If you have any questions regarding this report contact Henry County Medical Center's Chief Financial Officer, at Henry County Medical Center, 301 Tyson Avenue, P.O. Box 1030, Paris, TN 38242.

HC HENRY COUNTY
MC MEDICAL CENTER

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

Statements of Net Assets

June 30, 2010 and 2009

Assets

	2010	2009
Current assets:		
Cash and cash equivalents	$ 3,184,347	$ 2,753,923
Assets limited as to use and that are required for current liabilities	982,000	941,000
Patient accounts receivable, less allowance for uncollectible accounts of $7,999,000 and $6,679,000 in 2010 and 2009, respectively	8,316,578	9,262,023
Inventories	1,848,431	1,834,917
Prepaid expenses and other current assets	360,168	606,138
Total current assets	14,691,524	15,398,001
Property and equipment, net	37,128,995	39,214,904
Long-term investments	7,604,112	7,521,838
Assets limited as to use, excluding assets required for current liabilities	14,219,141	10,701,000
Other assets	955,508	776,277
	$ 74,599,280	$ 73,612,020

Liabilities and Net Assets

Current liabilities:		
Current portion of long-term debt	$ 1,053,000	$ 882,000
Accounts payable	1,813,130	2,057,166
Accrued expenses	4,589,977	3,964,321
Estimated third-party payor settlements	209,927	145,404
Total current liabilities	7,666,034	7,048,891
Long-term debt, excluding current portion	13,418,250	14,315,000
Other long-term liabilities	199,308	-
Total liabilities	21,283,592	21,363,891
Net assets:		
Unrestricted:		
Invested in capital assets, net of related debt	22,657,745	24,017,904
Unrestricted net assets	30,657,943	28,230,225
Total unrestricted net assets	53,315,688	52,248,129
	$ 74,599,280	$ 73,612,020

See accompanying notes to the financial statements.

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

Statements of Revenue, Expenses and Changes in Net Assets

Years ended June 30, 2010 and 2009

	2010	2009
Operating revenue:		
Patient service revenue, net of provision for bad debts of $6,251,879 and $4,602,614 in 2010 and 2009, respectively	$ 65,556,492	$ 64,463,729
Other revenue	1,423,049	1,312,581
Total operating revenue	66,979,541	65,776,310
Expenses:		
Salaries and wages	28,592,496	27,514,276
Employee benefits	9,213,146	9,271,288
Supplies	14,040,641	14,061,707
Professional fees	2,638,551	4,101,202
Physician fees	473,078	162,145
Utilities and telephone	1,352,619	1,564,525
Repairs and maintenance	1,810,702	1,681,892
Leases and rentals	917,848	805,806
Insurance	419,319	546,441
Interest expense	56,645	203,887
Depreciation and amortization	4,694,396	4,642,244
Other expenses	1,564,188	1,583,664
Services tax	387,148	387,148
Total expenses	66,160,777	66,526,225
Operating income (loss)	818,764	(749,915)
Nonoperating income - investment income	248,795	293,789
Excess of revenue over expenses (expenses over revenue)	1,067,559	(456,126)
Net assets at beginning of year	52,248,129	52,704,255
Net assets at end of year	$ 53,315,688	$ 52,248,129

See accompanying notes to the financial statements.

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

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 66,566,460	$ 65,227,084
Payments to suppliers and employees	(59,211,395)	(60,304,058)
Other receipts and payments, net	(591,568)	(700,701)
Net cash provided by operating activities	6,763,497	4,222,325
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(975,750)	(848,476)
Interest paid on long-term debt	(56,645)	(203,887)
Purchases of property and equipment	(2,358,487)	(3,032,844)
Net cash used by capital and related financing activities	(3,390,882)	(4,085,207)
Cash flows from investing activities:		
Distributions from joint venture	425,000	565,000
Purchases of investments	(56,845)	(131,045)
Increase in assets limited as to use	(3,559,141)	(2,010,602)
Investment income	248,795	293,789
Net cash used by investing activities	(2,942,191)	(1,282,858)
Increase (decrease) in cash and cash equivalents	430,424	(1,145,740)
Cash and cash equivalents at beginning of year	2,753,923	3,899,663
Cash and cash equivalents at end of year	$ 3,184,347	$ 2,753,923
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ 818,764	$ (749,915)
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Depreciation and amortization	4,694,396	4,642,244
Provision for bad debts	6,251,879	4,602,614
Loss on disposal of property and equipment	-	29,117
Equity in earnings of joint venture	(450,429)	(458,755)
Interest paid on debt	56,645	203,887
(Increase) decrease in operating assets:		
Patient accounts receivable	(5,306,434)	(3,515,530)
Inventories	(13,514)	(149,664)
Prepaid expenses and other current assets	245,970	(162,254)
Other assets	(179,231)	320,274
Increase (decrease) in operating liabilities:		
Accounts payable	(244,036)	130,019
Accrued expenses	625,656	(345,983)
Estimated third-party payor settlements	64,523	(323,729)
Other long-term liabilities	199,308	-
Net cash provided by operating activities	$ 6,763,497	$ 4,222,325

See accompanying notes to the financial statements.

(1) Nature of operations

Henry County Medical Center (Medical Center) is a political subdivision of Henry County, Tennessee (County). The Medical Center provides comprehensive health care services through the operation of an acute care hospital (Hospital), nursing home (Healthcare Center), home health agency (HHA), and emergency medical services agency (EMS). It is governed by a Board of Trustees under the authority of the County Commission of Henry County, Tennessee and the Henry County Hospital District. The Board of County Commissioners appoints the Board of Trustees of the Medical Center which may not issue debt without the County's approval. Under accounting principles generally accepted in the United States of America, the Medical Center constitutes a component unit of the County for financial reporting purposes.

(2) Summary of significant accounting policies

(a) Basis of presentation

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) and predecessor standard setting organizations, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

(b) Inventories

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

(c) Assets limited as to use

Assets limited as to use include cash and cash equivalents designated by the Board of Trustees for future capital improvements and debt repayment, over which the Board retains control and may at its discretion use for other purposes. Investments are reported at fair value.

(d) Cash, cash equivalents and investments

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

Cash and cash equivalents include cash on hand and certificates of deposit, with original maturities of less than three months, with financial institutions. Investments, including assets limited as to use, consist of certificates of deposit with original maturities of greater than three months. Those investments with original maturities greater than three months but less than one year are classified as short-term investments, while the remaining amount is classified as long-term. Amounts included in the balance sheet caption "Assets limited as to use" consist of cash and cash equivalents. All of the Medical Center's cash and cash equivalents and certificates of deposit are insured or collateralized by securities held by the financial institutions' trust department in the Medical Center's name.

At June 30, 2010 and 2009, the total carrying value of the Medical Center's cash, cash equivalents and investments, including assets limited as to use, was $25,342,059 and $21,230,649, respectively, and the bank balance was $25,480,398 and $21,518,093, respectively. The entire financial institution balance was covered by federal depository insurance or by collateral held by the trustee in the Medical Center's name.

A fifty percent interest in a joint venture that provides cancer care services in the Henry County area is included in long-term investments on the accompanying balance sheet. This investment is accounted for under the equity method. The investment balance included in long-term investments is $647,541 and $687,112 at June 30, 2010 and 2009, respectively.

(e) Fair value measurements

On July 1, 2008, the Medical Center adopted components of the accounting standards for fair value, which define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements for both financial and non-financial assets and liabilities. These standards apply to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). While a majority of the Medical Center's assets whose use is limited and investments are cash equivalents, the Medical Center has approximately $8,200,000 and $5,000,000 as of June 30, 2010 and 2009, respectively, in certificates of deposit that would be classified as Level 2 under the hierarchy above. The Medical Center does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2010.

Financial assets

The carrying amount of financial assets, consisting of cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, accrued expenses and current portions of long-term debt and capital lease obligations approximate their fair value due to their relatively short maturities. Long-term debt and other long-term liabilities are carried at amortized cost, which approximates fair value.

Non-financial assets

The Medical Center's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Medical Center is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at the fair value. During the year ended June 30, 2010, the Medical Center did not measure any non-financial assets at fair-value or recognize any amounts in the statements of activities related to changes in fair value for non-financial assets.

(f) Property and equipment

Property and equipment acquisitions are recorded at cost. The Medical Center capitalizes purchases that cost a minimum of $500 and have a useful life greater than three years. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 5-20 years; buildings and improvements 5-40 years; fixed equipment 10-20 years; and major movable equipment 5-20 years.

(g) Patient service revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient service revenue is net of contractual adjustments and policy discounts of approximately $101,500,000 and $92,000,000 for the years ended June 30, 2010 and 2009, respectively. Approximately 47% and 45% of net patient service revenue was from Medicare for the years ended June 30, 2010 and 2009, respectively. Approximately 14% and 12% of net patient service revenue was from Medicaid/TennCare for the years ended June 30, 2010 and 2009, respectively.

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

(h) Costs of borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

(i) Pension plan

Medical Center employees are covered under The Tennessee Consolidated Retirement System, a defined benefit plan. The Medical Center's costs are charged to expense and funded annually.

(j) Compensated absences

The Medical Center provides its full-time employees with paid days off for holiday, vacation, sick, and bereavement absences. The paid days off begin accruing after a three month probationary period and are based on the table which follows. Such days may be taken only after the employee has earned them. All earned days must be taken annually, except that an employee may carry forward up to the normal number of hours worked in a four-week period. Such liabilities have been accrued in the accompanying balance sheet.

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

(k) Risk management

The Medical Center is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance is purchased for claims arising from such matters. The Medical Center is self-insured for employee health and workers' compensation claims and judgments as discussed in Note 9.

(l) Net assets

All resources that are not restricted by donors are included in unrestricted net assets. Resources temporarily restricted by donors for specific purposes are reported as temporarily restricted net assets. When specific purposes are achieved, either through passage of a stipulated time or the purpose for restriction is accomplished, they are classified to unrestricted net assets and reported in the statement of revenues, expenses and changes in net assets. Resources temporarily restricted by donors for additions to land, building and equipment are initially reported as temporarily restricted net assets and are transferred to unrestricted net assets when expended. Donor-imposed restrictions which stipulate that the resources be maintained permanently are reported as permanently restricted net assets. Investment income for the permanently restricted net assets is classified as either temporarily restricted or unrestricted based on the intent of the donor. As of June 30, 2010 and 2009, there were no permanently or temporarily restricted net assets.

(m) Income taxes

The Medical Center is a not-for-profit corporation as described in Chapter 176 of the Private Acts and is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

(n) Performance indicator

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

(o) Long-lived assets

Management evaluates the recoverability of its investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(p) Use of estimates

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

(q) Reclassifications

Certain reclassifications have been made to the 2009 financial statements in order for them to conform to the 2010 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

(r) Events occurring after reporting date

The Medical Center has evaluated events and transactions that occurred between June 30, 2010 and September 16, 2010, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Third-party reimbursement programs

The Medical Center receives revenue under various third-party reimbursement programs which include Medicare, TennCare, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. The adjustments resulting from tentative or final settlements to estimated reimbursement amounts resulted in an increase/(decrease) to revenue of approximately $(116,000) and $314,000 for the years ended June 30, 2010 and 2009, respectively.

(a) Medicare

The Medical Center is paid for substantially all services rendered to inpatient Medicare program beneficiaries under prospectively determined rates-per-discharge. Those rates vary according to a classification system that is based on clinical, diagnostic, and other factors. The Medical Center is paid for outpatient, emergency medical services and psychiatric services under a Medicare program known as the Ambulatory Payment Classification (APC) system. Under the APC system, outpatient services are classified into APC categories based on standard procedure codes (CPT-4 Codes) for the service provided and payment for the APC categories are determined using prospectively determined Federal payment rates adjusted for geographical area wage differences. The Medical Center receives cash payments at an interim rate with final settlement determined after the Medical Center's submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare Prospective Payment System and the appropriateness of the patients' admissions are subject to validation reviews by the Medicare peer review organization.

(b) Medicaid

The Medicaid program reimburses the healthcare center for the cost of services rendered to Medicaid beneficiaries at a prospective rate which is based on the lower of the reimbursable cost of services rendered or a reimbursement cap set by Medicaid. The reimbursement cap is expressed as a per diem.

(c) TennCare

The State of Tennessee TennCare program is a managed care program which provides healthcare coverage to those previously eligible for Medicaid as well as the uninsured population. The Hospital contracts with various managed care organizations (MCO's) which offer both Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) healthcare products. Reimbursement to the Medical Center is received through per diems, Diagnosis-Related Group (DRG) payments and discounted fee for service.

(d) Commercial Payors

The Medical Center has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge and discounts from established rates.

(e) Credit Concentration

The Medical Center grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. At June 30, 2010 and 2009, the Medical Center had net receivables from the Federal Government (Medicare) of approximately $2,600,000 and $3,100,000, respectively, and from Medicaid/TennCare of approximately $850,000 and $1,050,000, respectively.

(4) Charity care

Charges excluded from revenue under the Medical Center's charity care policy were $2,683,176 and $2,746,189 for the years ended June 30, 2010 and 2009, respectively.

(5) Inventories

A summary of inventories as of June 30, 2010 and 2009 is as follows:

	2010	2009
Medical stores	$ 105,722	$ 96,186
Dietary	32,828	34,486
Departmental	1,709,881	1,704,245
	$ 1,848,431	$ 1,834,917

(6) Property and equipment

The major classifications and changes in property and equipment as of and for the years ended June 30, 2010 and 2009 are as follows:

	Balance at June 30, 2009	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2010
Land	$ 655,041	$ -	$ -	$ 655,041
Land improvements	1,217,875	911	-	1,218,786
Buildings and improvements	47,448,777	489,336	-	47,938,113
Machinery and equipment	26,517,045	2,107,375	(103,978)	28,520,442
	75,838,738	2,597,622	(103,978)	78,332,382
Less allowance for depreciation and amortization:				
Land improvements	(1,044,316)	(37,700)	-	(1,082,016)
Buildings and improvements	(18,710,216)	(1,710,261)	-	(20,420,477)
Machinery and equipment	(16,998,819)	(2,946,435)	103,978	(19,841,276)
	(36,753,351)	(4,694,396)	103,978	(41,343,769)
	39,085,387	(2,096,774)	-	36,988,613
Construction in progress	129,517	70,649	(59,784)	140,382
	$ 39,214,904	$ (2,026,125)	$ (59,784)	$ 37,128,995

	Balance at June 30, 2008	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2009
Land	$ 655,041	$ -	$ -	$ 655,041
Land improvements	1,217,875	-	-	1,217,875
Buildings and improvements	46,577,903	870,874	-	47,448,777
Machinery and equipment	24,500,435	2,324,515	(307,905)	26,517,045
	72,951,254	3,195,389	(307,905)	75,838,738
Less allowance for depreciation and amortization:				
Land improvements	(1,000,243)	(44,073)	-	(1,044,316)
Buildings and improvements	(16,946,145)	(1,764,071)	-	(18,710,216)
Machinery and equipment	(14,443,507)	(2,834,100)	278,788	(16,998,819)
	(32,389,895)	(4,642,244)	278,788	(36,753,351)
	40,561,359	(1,446,855)	(29,117)	39,085,387
Construction in progress	292,062	1,364,629	(1,527,174)	129,517
	$ 40,853,421	$ (82,226)	$ (1,556,291)	$ 39,214,904

The Medical Center is in the process of constructing various expansions and additions to the existing facilities. The total cost of these projects is expected to be approximately $342,000. No interest costs were capitalized during the years ended June 30, 2010 and June 30, 2009.

(7) Long-term debt

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

	Balance at June 30, 2009	Additions	Reductions	Balance at June 30, 2010	Amounts Due Within One Year
Public Building Authority of the County of Montgomery, TN - Series 1997	$ 1,219,000	$ -	$ (385,000)	$ 834,000	$ 406,000
Public Building Authority of the County of Montgomery, TN - Series 2002	13,978,000	-	(497,000)	13,481,000	522,000
Other debt	-	250,000	(93,750)	156,250	125,000
	$ 15,197,000	$ 250,000	$ (975,750)	$ 14,471,250	$ 1,053,000

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

During September 1997, the Medical Center entered into a loan agreement with the Public Building Authority of the County of Montgomery, Tennessee (Building Authority) whereby, the Building Authority loaned the Medical Center $4,500,000 for the construction, acquisition, and enlargement of its buildings, structures and facilities. As of June 30, 2010 and 2009, the Medical Center had outstanding borrowings of $834,000 and $1,219,000, respectively, under this agreement. The loan agreement bears interest at an adjustable rate (0.52% as of June 30, 2010), and is due in annual installments varying between $406,000 and $428,000 through May 25, 2012. The adjustable interest rate is adjusted weekly as determined by the remarketing agent.

During June 2002, the Medical Center entered into an additional loan agreement with the Public Building Authority of the County of Montgomery, Tennessee (Building Authority) whereby, the Building Authority agreed to loan the Medical Center up to $16,500,000 for the construction, acquisition, and enlargement of its buildings, structures, and facilities. As of June 30, 2010 and 2009, the Medical Center had outstanding borrowings of $13,481,000 and $13,978,000, respectively, under this agreement. The loan agreement bears interest at an adjustable rate (0.42% as of June 30, 2010), and is due in annual installments varying between $522,000 and $1,139,000 through May 25, 2027. The adjustable interest rate is adjusted daily as determined by the remarketing agent.

Pursuant to the agreements for the Building Authority loans, if the principal of all bonds issued under such loans are accelerated, and the bonds are paid by the remarketing agent, the repayment schedule applicable to such loans shall be recalculated over a term of 60 months from the date of such acceleration. The interest rate on the loan amounts after such acceleration shall adjust to the prime rate as defined in the agreements.

A summary of future maturities and interest of long-term debt as of June 30, 2010 is as follows:

Year	Principal	Estimated Interest	Total Payments
2011	$ 1,053,000	$ 54,000	$ 1,107,000
2012	1,007,250	49,000	1,056,250
2013	575,000	46,000	621,000
2014	604,000	44,000	648,000
2015	634,000	41,000	675,000
2016 - 2020	3,679,000	168,000	3,847,000
2021 - 2025	4,696,000	89,000	4,785,000
2026 - 2027	2,223,000	9,000	2,232,000
	$ 14,471,250	$ 500,000	$ 14,971,250

(8) Employee benefit plans

Pension plan

Employees of the Medical Center are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Medical Center participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at http://www.treasury.state.tn.us/tcrs/PS/.

The Medical Center is a political subdivision of the County. The Medical Center's funding policy and schedule of pension plan funding progress have not been included within the financial statements as these amounts are aggregated with the County. The Henry County Annual Financial Report should be read to obtain the aggregated information related to funding policy and schedule of pension plan funding progress. For the years ended June 30, 2010 and 2009, the Medical Center's annual pension costs were approximately $1,706,000 and $1,616,000, respectively.

Deferred compensation plans

Effective January 1, 2002, the Medical Center established a deferred compensation plan (the "Plan") under Section 457 of the Internal Revenue Code. Employees become eligible to participate in the Plan on their first day of employment. The Medical Center does not make any contributions to the Plan nor does it bear any of the administrative costs.

During 2010, the Medical Center implemented a physician call pay plan. The Medical Center made contributions to the plan of approximately $190,000 during 2010. The plan had assets of approximately $200,000 and a liability of approximately $199,000 at June 30, 2010. The assets are included in other assets and the liability is included in other long-term liabilities in the accompanying statements of net assets.

(9) Commitments and contingencies

The Medical Center leases various equipment under operating lease agreements. Rent expense was $917,848 and $805,806 in 2010 and 2009, respectively.

A summary of future minimum payments under these equipment leases as of June 30, 2010 is as follows:

Year	
2011	$ 569,000
2012	429,000
2013	208,000
2014	129,000
2015	29,000
2016 and later years	2,000
	$ 1,366,000

The Medical Center maintains commercial insurance on a claims-made basis for medical malpractice liabilities. Insurance coverages are $300,000 individually and $900,000 in the aggregate annually, which is consistent with current litigation settlement limitations established by the State of Tennessee for governmental entities. Management intends to maintain such coverages in the future. The Medical Center is involved in litigation arising in the ordinary course of business; however, management is of the opinion that insurance coverages are adequate to cover any potential losses on asserted claims. Management is unaware of any incidents which would ultimately result in a loss in excess of the Medical Center's insurance coverages.

The Medical Center is self-insured for a portion of employee medical and other healthcare benefits and workers' compensation claims. The risk of loss retained by the Medical Center is limited to $130,000 and $350,000 per occurrence for employee health and workers' compensation, respectively. The Medical Center has purchased excess insurance to provide coverage for claims in excess of the self-insured retention. Contributions by the Medical Center for employee health are based on actuarial estimates, while contributions for workers' compensation are based on actual claims experience. Claims expense and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include a provision for estimated claims incurred but not reported. Reserves included within accrued expenses related to employee medical and other healthcare benefits amounted to $850,000 and $800,000 in 2010 and 2009, respectively. Reserves included within accrued expenses related to workers' compensation claims amounted to $484,867 and $584,867 in 2010 and 2009, respectively.

Management continues to implement policies, procedures, and compliance overview organizational structure to enforce and monitor compliance with the Health Insurance Portability and Accountability Act of 1996 and other government statues and regulations. The Medical Center's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

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

The Medical Center serves as the guarantor on debt issued to the joint venture in which it holds a fifty percent interest (see Note 2(d)). The balance of the debt as of June 30, 2010 was approximately $207,000.

(10) Functional expenses

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

	2010	2009
Healthcare services	$ 42,841,662	$ 42,879,175
General and administrative	23,319,115	23,647,050
	$ 66,160,777	$ 66,526,225

(11) Supplemental disclosures of cash flow statement information

During 2010, the Medical Center incurred a capital lease obligation of $250,000 for an acquisition of property and equipment.

HENRY COUNTY MEDICAL CENTER
Hospital and HHA

Schedule of Net Assets Information

June 30, 2010 and 2009

Assets

	2010	2009
Current assets:		
Cash and cash equivalents	$ 1,875,167	$ 1,257,643
Assets limited as to use and that are required for current liabilities	982,000	941,000
Patient accounts receivable, net	6,776,692	7,643,239
Due from Healthcare Center	815,403	1,706,581
Due from EMS Agency	2,167,277	1,752,949
Inventories	1,795,416	1,786,870
Prepaid expenses and other current assets	343,406	545,805
Total current assets	14,755,361	15,634,087
Property and equipment, net	34,800,605	36,679,138
Long-term investments	7,604,112	7,521,838
Assets limited as to use, excluding assets required for current liabilities	14,219,141	10,701,000
Other assets	955,508	776,277
	$ 72,334,727	$ 71,312,340

Liabilities and Net Assets

Current liabilities:		
Current portion of long-term debt	$ 1,053,000	$ 882,000
Accounts payable	1,554,058	1,793,799
Accrued expenses	3,785,448	3,225,962
Estimated third-party payor settlements	209,927	145,404
Total current liabilities	6,602,433	6,047,165
Long-term debt, excluding current portion	13,418,250	14,315,000
Other long-term liabilities	199,308	-
Total liabilities	20,219,991	20,362,165
Net assets:		
Unrestricted:		
Invested in capital assets, net of related debt	20,329,355	21,482,138
Unrestricted net assets	31,785,381	29,468,037
Total net assets	52,114,736	50,950,175
	$ 72,334,727	$ 71,312,340

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Hospital and HHA

Schedule of Revenue, Expenses, and Changes in Net Assets Information

Years ended June 30, 2010 and 2009

	2010	2009
Operating revenue:		
Patient service revenue, net of provision for bad debts of $5,806,109 and $4,242,900 in 2010 and 2009, respectively	$ 53,510,024	$ 52,574,839
Management fee revenue	96,000	96,000
Other revenue	1,389,161	1,286,527
Total operating revenue	54,995,185	53,957,366
Expenses:		
Salaries and wages	22,261,156	21,303,283
Employee benefits	7,149,156	7,295,184
Supplies	12,589,156	12,705,420
Professional fees	2,354,140	3,871,165
Physician fees	441,778	132,345
Utilities and telephone	1,112,395	1,282,022
Repairs and maintenance	1,688,312	1,542,006
Leases and rentals	868,191	703,513
Insurance	277,489	448,729
Interest expense	56,645	203,887
Depreciation and amortization	4,324,828	4,226,108
Other expenses	954,659	905,460
Total expenses	54,077,905	54,619,122
Operating income (loss)	917,280	(661,756)
Nonoperating income - investment income	247,281	286,677
Excess of revenue over expenses (expenses over revenue)	1,164,561	(375,079)
Net assets at beginning of year	50,950,175	51,325,254
Net assets at end of year	$ 52,114,736	$ 50,950,175

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Healthcare Center

Schedule of Net Assets Information

June 30, 2010 and 2009

Assets

	2010	2009
Current assets:		
Cash and cash equivalents	$ 1,124,386	$ 1,338,790
Patient accounts receivable, net	1,129,801	1,303,281
Inventories	37,324	34,268
Prepaid expenses and other current assets	9,906	41,515
Total current assets	2,301,417	2,717,854
Property and equipment, net	2,175,036	2,421,980
	$ 4,476,453	$ 5,139,834

Liabilities and Net Assets

Current liabilities:		
Accounts payable	$ 232,432	$ 219,818
Accrued expenses	626,664	633,694
Due to Medical Center	815,403	1,706,581
Total current liabilities	1,674,499	2,560,093
Net assets:		
Unrestricted:		
Invested in capital assets, net of related debt	2,175,036	2,421,980
Unrestricted net assets	626,918	157,761
Total net assets	2,801,954	2,579,741
	$ 4,476,453	$ 5,139,834

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Healthcare Center

Schedule of Revenue, Expenses, and Changes in Net Assets Information

Years ended June 30, 2010 and 2009

	2010	2009
Operating revenue:		
Patient service revenue, net of provision for bad debts of $0 in 2010 and 2009, respectively	$ 10,248,705	$ 10,012,348
Other revenue	33,888	26,054
Total operating revenue	10,282,593	10,038,402
Expenses:		
Salaries and wages	5,131,449	5,018,868
Employee benefits	1,671,935	1,600,663
Supplies	1,338,448	1,287,611
Professional fees	204,512	158,474
Physician fees	25,300	24,300
Utilities and telephone	215,450	254,176
Repairs and maintenance	46,279	48,333
Leases and rentals	19,195	74,900
Insurance	106,194	60,303
Depreciation and amortization	317,053	342,863
Other expenses	598,679	607,730
Services tax	387,148	387,148
Total expenses	10,061,642	9,865,369
Operating income	220,951	173,033
Nonoperating income - investment income	1,262	5,952
Excess of revenue over expenses	222,213	178,985
Net assets at beginning of year	2,579,741	2,400,756
Net assets at end of year	$ 2,801,954	$ 2,579,741

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
EMS Agency

Schedule of Net Deficit Information

June 30, 2010 and 2009

Assets

	2010	2009
Current assets:		
Cash and cash equivalents	$ 184,794	$ 157,490
Patient accounts receivable, net	410,085	315,503
Inventories	15,691	13,779
Prepaid expenses and other current assets	6,856	18,818
Total current assets	617,426	505,590
Property and equipment, net	153,354	113,786
	$ 770,780	$ 619,376

Liabilities and Net Deficit

Current liabilities:		
Accounts payable	$ 26,640	$ 43,549
Accrued expenses	177,865	104,665
Due to Medical Center	2,167,277	1,752,949
Total current liabilities	2,371,782	1,901,163
Net Deficit:		
Unrestricted:		
Invested in capital assets, net of related debt	153,354	113,786
Unrestricted net deficit	(1,754,356)	(1,395,573)
Total net deficit	(1,601,002)	(1,281,787)
	$ 770,780	$ 619,376

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
EMS Agency

Schedule of Revenue, Expenses, and Changes in Net Deficit Information

Years ended June 30, 2010 and 2009

	2010	2009
Patient service revenue, net of provision for bad debts of $445,770 and $359,714 in 2010 and 2009, respectively	$ 1,797,763	$ 1,876,542
Expenses:		
Salaries and wages	1,199,891	1,192,125
Employee benefits	392,055	375,441
Supplies	113,037	68,676
Professional fees	79,899	71,563
Physician fees	6,000	5,500
Utilities and telephone	24,774	28,327
Repairs and maintenance	76,111	91,553
Leases and rentals	30,462	27,393
Insurance	35,636	37,409
Depreciation and amortization	52,515	73,273
Other expenses	10,850	70,474
Management fees	96,000	96,000
Total expenses	2,117,230	2,137,734
Operating loss	(319,467)	(261,192)
Nonoperating income - investment income	252	1,160
Excess of expenses over revenues	(319,215)	(260,032)
Net deficit at beginning of year	(1,281,787)	(1,021,755)
Net deficit at end of year	$ (1,601,002)	$ (1,281,787)

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Psychiatric Department

Schedule of Revenue and Expenses Information

Years ended June 30, 2010 and 2009

	2010	2009
Patient service revenue(1)	$ 3,541,632	$ 1,980,230
Operating expenses(1):		
Salaries and wages	823,264	631,701
Employee benefits	59,117	45,125
Professional services	93,037	589,338
Repairs and maintenance	-	174
Rent	1,215	2,154
Telephone	-	847
Office supplies	3,747	3,348
Medical supplies	4,523	3,867
Pantry	9,900	5,942
Small equipment	346	489
Miscellaneous	2,594	948
Total expenses	997,743	1,283,933
Excess of revenue over expenses(1)	$ 2,543,889	$ 696,297

(1) The above information is summarized from the departmental report. It does not include estimates for contractual adjustments or bad debt expense, nor does it include any allocation of the costs incurred by the general service departments.

See accompanying independent auditors' report.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Henry County Medical Center
Paris, Tennessee:

We have audited the financial statements of Henry County Medical Center (Medical Center), a component unit of Henry County, Tennessee, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 16, 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 audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Medical Center's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 16, 2010