

Annual Financial Report
Claiborne County Hospital
and Nursing Home and Subsidiaries

*Years ended June 30, 2010 and 2009
with Report of Independent Auditors*

Claiborne County Hospital and Nursing Home and Subsidiaries

Annual Financial Report

Years ended June 30, 2010 and 2009

Contents

Report of Independent Auditors1

Management’s Discussion and Analysis3

Audited Consolidated Financial Statements

Consolidated Balance Sheets7

Consolidated Statements of Revenues, Expenses and Changes in Net Assets9

Consolidated Statements of Cash Flows10

Notes to Consolidated Financial Statements12

List of Officials (Unaudited).....26

Report of Independent Auditors 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*27



Report of Independent Auditors

Board of Directors
Claiborne County Hospital and Nursing Home and Subsidiaries

We have audited the accompanying consolidated balance sheet of Claiborne County Hospital and Nursing Home and Subsidiaries (the Hospital), a component unit of Claiborne County, Tennessee, as of June 30, 2010 and the consolidated statement of revenues, expenses and changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements as of and for the year ended June 30, 2009, were audited by other auditors whose report dated December 8, 2009 expressed an unqualified opinion on those statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Claiborne County Hospital and Nursing Home and Subsidiaries as of June 30, 2010 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The consolidated financial statements of the Hospital as of June 30, 2009 and for the year then ended were audited by other auditors and have been restated as described in Note 1. We audited the adjustments described in Note 1 that were applied to restate the 2009 financial statements and in our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2009 consolidated financial statements of the Hospital other than with respect to such adjustments and, accordingly, we do not express an opinion or any form of assurance on the 2009 consolidated financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 14, 2011 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions, laws, regulations, contracts 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 conjunction with this report in considering the results of our audit.

Board of Directors
Claiborne County Hospital and Nursing Home and Subsidiaries

Management's Discussion and Analysis on pages 3 through 6 is not a required part of the consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The List of Officials on page 26, which is of a nonaccounting nature, has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and we express no opinion on it.

Coulter & Justus, P.C.

June 14, 2011

Claiborne County Hospital and Nursing Home and Subsidiaries

Management's Discussion and Analysis

This section of Claiborne County Hospital and Nursing Home and Subsidiaries' annual financial report presents management's discussion and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2010, 2009 and 2008. The information contained herein should be considered in conjunction with the Hospital's accompanying financial statements.

Overview of the Financial Statements

The Hospital is a component unit of Claiborne County, Tennessee, and the accompanying financial statements reflect the Hospital's financial position and activities. These consolidated financial statements consist of balance sheets, statements of revenues, expenses and changes in net assets and statements of cash flows. The accompanying notes to the consolidated financial statements are an integral part of the financial statements and are essential to understanding the data contained in the financial statements.

The balance sheets provide descriptions of the Hospital's assets and liabilities and an indication of the Hospital's financial position. The statements of revenue, expenses and changes in net assets report the revenues and expenses relate to the Hospital's activities. The statements of cash flows report the cash provided and used by operating, investing, capital, financing and other activities.

Financial Highlights

Condensed financial information as of and for the years June 30, 2010, 2009 and 2008 is provided in the tables below (amounts in thousands):

	2010	2009	2008
Assets:			
Current assets	\$ 6,828	\$ 8,305	\$11,308
Capital assets, net	14,755	15,318	15,759
Assets limited as to use	2,480	1,381	1,380
Other	201	202	205
Total assets	\$24,264	\$25,206	\$28,652
Liabilities:			
Current liabilities	\$ 4,247	\$ 4,143	\$ 3,821
Long-term liabilities	7,083	6,542	7,046
Total liabilities	\$11,330	\$10,685	\$10,867
Net assets:			
Invested in capital assets, net of related debt	\$ 9,035	\$ 9,290	\$ 9,221
Unrestricted	3,491	4,900	6,054
Temporarily restricted	407	331	1,380
Total net assets	\$12,933	\$14,521	\$16,655

Claiborne County Hospital and Nursing Home and Subsidiaries

Management's Discussion and Analysis (continued)

Financial Position

Overall, the Hospital's net assets declined in 2010 as compared to 2009 and 2008. This decrease in net assets is primarily the result of operating losses in 2010 and 2009 (discussed further in the following section).

Depreciation and the 2010 bond issue decreased the amounts classified as net assets invested in capital assets (net of related debt) in 2010. In 2009, the capital additions resulted in an increase in net assets invested in capital assets (net of related debt), while additional bond issues were offset by principal payments and depreciation.

Current assets decreased from 2009 to 2010 primarily due to reductions in patient accounts receivable. Assets limited as to use increased in 2010 due to 2010 bond proceeds; a portion of which is restricted for use in completing the Medical Office Building. Assets limited as to use in 2009 and 2008 consist of debt proceeds restricted for use in completing the Medical Office Building.

The statements of cash flows and Notes 6 and 7 to the financial statements provide additional information regarding the capital additions, bonds, debt and related cash flows.

Results of Operations

Operating revenues and expenses are as follows for the years ended June 30, 2010, 2009 and 2008 (amounts in thousands):

	2010	Relative %	2009	Relative %	2008	Relative %
Operating revenue:						
Net patient service revenues	\$30,405	96%	\$31,877	97%	\$32,935	97%
Other revenue	1,160	4%	1,043	3%	1,042	3%
Total operating revenues	31,565	100%	32,920	100%	33,977	100%
Operating expenses:						
Salaries and wages	20,177	64%	21,935	67%	21,961	65%
Medical supplies and drugs	3,242	10%	3,748	11%	3,775	11%
Other supplies	790	2%	771	2%	935	2%
Insurance	752	2%	631	2%	613	2%
Depreciation and amortization	1,415	5%	1,298	4%	1,249	4%
Other expenses	6,628	21%	6,522	20%	6,147	18%
Total operating expenses	33,004	104%	34,905	106%	34,680	102%
Operating loss	(1,439)	(4%)	(1,985)	(6%)	(703)	(2%)
Nonoperating income (expenses):						
Investment income	131	-	142	-	94	-
Interest expense	(339)	(1%)	(295)	(1%)	(172)	-
Other income	60	-	-	-	-	-
Loss on disposal of capital assets	-	-	-	-	(25)	-
Nonoperating loss	(148)	(1%)	(153)	(1%)	(103)	-
Excess expenses over revenues	\$ (1,587)	(5%)	\$(2,138)	(7%)	\$ (806)	(2%)

Claiborne County Hospital and Nursing Home and Subsidiaries
Management's Discussion and Analysis (continued)

Results of Operations (continued)

Net patient service revenues decreased 5% in 2010 and 3% in 2009 primarily due to lower demand from the economic downturn and resulting loss of medical insurance by residents of the area served by the Hospital. Hospital fees and rates have increased each year but a significant portion of the price increases are not reimbursed by the Hospital's largest third party payors such as Medicare and TennCare. Operating expenses in 2010 decreased due to cost containment efforts by Hospital management and staff, including efforts to purchase supplies and drugs at lower costs and a workforce reduction. Overall, operating expenses decreased 5%, in 2010, as compared with a 1% increase in 2009. Although operating revenues decreased in 2010, this reduction was offset by the decreased operating expenses, resulting in an operating loss for 2010 of \$1,439,401, representing an improvement of approximately \$546,000 over the 2009 loss of \$1,985,274. The Hospital has operated on a continuation budget for the past two years. Due to operating losses incurred, Hospital management has directed budgetary efforts toward effective cost control.

Other cost containment measures included sale of the Home Health division in March 2011. The Home Health division contributed approximately \$380,000 in operating losses for both 2010 and 2009 primarily due to reductions in reimbursement from TennCare for certain services. The sale generated cash of approximately \$2,250,000 and a note receivable from the buyer of \$250,000.

Interest costs in 2010 increased in relation to a full year of interest payments on the 2009 series bonds and incurring additional interest on the issuance of new bonds during the year. The additional bonds were used to refund existing bonds during both 2010 and 2009 (discussed further in the following section). Interest expense in 2009 primarily reflects the increases in variable rates paid in connection with the bonds during this period.

Capital Acquisitions and Construction Activities

Note 6 to the consolidated financial statements summarizes property and equipment by class and changes for the years ended June 30, 2010 and 2009. Additional information regarding accounting policies for capital assets is provided in Note 1 to the financial statements.

Total additions to property and equipment were \$827,151 in 2010 and \$847,965 in 2009. Additions in 2010 included completion of an eight bed Inpatient Rehabilitation Facility (IRF) and routine upgrades and improvements. In 2009, additions to building improvements and major moveable equipment included renovation of a hospital wing to house the planned IRF unit as well as routine upgrades and improvements. Construction in progress at June 30, 2010 and 2009 consists primarily of IRF costs. The IRF unit opened July 5, 2010. Due to low census, the IRF unit was temporarily closed in December 2010.

Subsequent to June 30, 2010, the Board approved and the Hospital made a commitment to purchase a digital mammography unit for approximately \$460,000.

Claiborne County Hospital and Nursing Home and Subsidiaries
Management's Discussion and Analysis

Long-Term Debt Activity

Principal payments on the 1997, 1998 and 2009 bond issues were approximately \$5,036,000 and \$138,000 for 2010 and 2009, respectively. During 2010, the majority of these payments were funded with 2010 refunding bond proceeds. Balances outstanding at June 30, 2010 and 2009 were \$6,190,000 and \$5,306,337 respectively (before bond premiums, discounts, and deferred refunding loss). Funds from the 2010A bond issue (discussed below) are escrowed for repayment of the 2009 V J-1 bonds.

In March, 2010, Claiborne County issued, on behalf of the Hospital, General Obligation Public Improvement Bonds, Series 2010A (tax exempt) and Series 2010B (taxable), totaling \$5,115,000 and \$1,075,000 respectively. The Series 2010A bonds provided the funds necessary to refund the previously issued Series 1997, 1998 and 2009 tax exempt bonds and additional funds which are restricted to complete the Medical Office Building. The Series 2010B bonds provided the funds necessary to refund the previously issued 2009 taxable bonds. The Series 2010A are tax exempt bonds and bear interest at rates ranging from 2.5% to 4.125%. The Series 2010B taxable bonds bear interest at rates of 1% to 4.6%. No principal payments were scheduled for the Series 2010A and Series 2010B bonds during 2010.

The terms of the bond issues are included in Note 7 to the financial statements.

Subsequent to June 30, 2010, the Hospital obtained a \$500,000 short-term loan from a bank, collateralized by accounts receivable. The loan provided working capital to offset recent operating results and certain changes in the State of Tennessee's reimbursement of nursing home facilities. Management plans to increase cash flow and improve operating results through continued expense reductions, revenue enhancements, and additional short-term financing or extensions.

Requests for Information

The annual financial report is designed to provide an overview of the Hospital's financial position and activity. Questions concerning the information provided herein or requests for additional information should be directed to the CEO/Administrator of Claiborne County Hospital and Nursing Home, Inc.

Respectfully submitted,



Timothy S. Brown
CEO/Administrator
Claiborne County Hospital and Nursing Home, Inc.

Claiborne County Hospital and Nursing Home and Subsidiaries

Consolidated Balance Sheets

	June 30	
	2010	2009
Assets	Restated	
Current assets:		
Cash and cash equivalents	\$ 856,749	\$ 1,140,529
Patient accounts receivable, less allowances for uncollectible accounts of approximately \$2,087,000 in 2010 and \$3,070,000 in 2009	4,859,080	6,212,969
Other receivables	246,571	234,370
Inventories	553,298	350,672
Prepaid expenses	230,945	254,604
Estimated amounts due from third-party payors	81,387	112,126
Total current assets	6,828,030	8,305,270
Assets limited as to use:		
For construction of capital assets	1,000,000	1,050,000
Foundation	407,394	331,154
Under bond agreements--held by trustee	1,072,131	-
	2,479,525	1,381,154
Property and equipment, net	14,755,178	15,318,320
Bond issuance costs, net	22,454	85,483
Other assets	178,358	115,942
Total assets	\$ 24,263,545	\$ 25,206,169

	June 30	
	2010	2009
		Restated
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,772,565	\$ 1,866,971
Accrued payroll and withholdings	894,473	856,246
Accrued compensated absences	826,248	827,797
Deferred revenue	3,869	5,398
Current portion of notes payable and capital leases	535,152	446,657
Current portion of bonds payable	215,000	140,000
Total current liabilities	<u>4,247,307</u>	4,143,069
Long-term debt:		
Notes payable and capital leases, less current portion	1,011,514	1,403,996
Bonds payable, less current portion	6,071,179	5,138,194
Total long-term debt	<u>7,082,693</u>	6,542,190
Total liabilities	11,330,000	10,685,259
Net assets:		
Invested in capital assets, net of related debt	9,035,009	9,289,481
Unrestricted	3,491,142	4,900,275
Temporarily restricted	407,394	331,154
Total net assets	<u>12,933,545</u>	14,520,910
Total liabilities and net assets	<u>\$ 24,263,545</u>	<u>\$ 25,206,169</u>

See accompanying Notes to Consolidated Financial Statements.

Claiborne County Hospital and Nursing Home and Subsidiaries
Consolidated Statements of Revenues, Expenses and Changes in Net Assets

	Year ended June 30	
	2010	2009
		Restated
Operative revenues:		
Net patient service revenue	\$ 30,404,853	\$ 31,876,555
Other revenue	1,159,840	1,043,659
Total operating revenues	31,564,693	32,920,214
Operating expenses:		
Salaries, wages, and benefits	20,177,124	21,934,604
Medical supplies and drugs	3,242,384	3,747,975
Other supplies	789,756	771,151
Insurance	752,135	631,327
Depreciation and amortization	1,415,082	1,298,132
Other expenses	6,627,613	6,522,299
Total operating expenses	33,004,094	34,905,488
Operating loss	(1,439,401)	(1,985,274)
Nonoperating income (expenses):		
Investment income	131,453	142,712
Interest expense	(339,417)	(295,007)
Other income	60,000	-
Net nonoperating expenses	(147,964)	(152,295)
Excess of expenses over revenues	(1,587,365)	(2,137,569)
Net assets at beginning of year	14,520,910	16,658,479
Net assets at end of year	\$ 12,933,545	\$ 14,520,910

See accompanying Notes to Consolidated Financial Statements.

Claiborne County Hospital and Nursing Home and Subsidiaries

Consolidated Statements of Cash Flows

	Year ended June 30	
	2010	2009
Cash flows from operating activities		Restated
Cash received from patients and third-party payors	\$ 31,789,481	\$ 33,515,790
Other operating cash receipts	1,159,840	1,043,139
Cash payments to suppliers for good and services	(14,878,528)	(15,150,186)
Cash payments to employees for services	(16,996,904)	(17,823,305)
Net cash provided by operating activities	1,073,889	1,585,438
 Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(673,700)	(847,965)
Net payments on lines of credit	-	(3,901,697)
Principal paid on long-term debt	(453,663)	(619,000)
Proceeds from bond issuance	883,647	4,010,000
Interest paid on long-term debt	(297,481)	(295,007)
Bond premiums, discounts and issuance costs	132,996	(72,261)
Net cash used in capital and related financing activities	(408,201)	(1,725,930)
 Cash flows from investing activities		
Interest received	131,453	142,712
 Net increase in restricted and unrestricted cash	797,141	2,220
Cash and cash equivalents at beginning of year	2,495,604	2,493,384
Cash and cash equivalents at end of year	\$ 3,292,745	\$ 2,495,604
 Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents in current assets	\$ 856,749	\$ 1,140,529
Cash and cash equivalents included in assets limited as to use	2,435,996	1,355,075
Total cash and cash equivalents	\$ 3,292,745	\$ 2,495,604

Claiborne County Hospital and Nursing Home and Subsidiaries

Consolidated Statements of Cash Flows (continued)

	Year ended June 30	
	2010	2009
	Restated	
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (1,439,401)	\$ (1,985,274)
Adjustments to reconcile operating loss to net cash flows provided by operating activities:		
Depreciation expense	1,380,354	1,288,607
Amortization of bond issuance costs and bond premium	34,738	9,525
Provision for bad debts	4,145,360	5,069,727
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,791,471)	(3,372,867)
Inventories, prepaid expenses and other current assets	(100,429)	176,914
Restricted assets	(33,579)	-
Other assets	(62,416)	38,320
Accounts payable and accrued expenses	(94,406)	298,433
Accrued payroll and withholdings	38,227	14,280
Accrued compensated absences	(1,549)	54,505
Other liabilities	(1,529)	(6,732)
Net cash provided by operating activities	\$ 1,073,899	\$ 1,585,438
 Supplemental disclosure		
Noncash investment in equipment through capital lease	\$ 149,692	\$ -

See accompanying Notes to Consolidated Financial Statements.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2010

1. Description of Reporting Entity and Significant Accounting Policies

Reporting Entity

Claiborne County Hospital and Nursing Home (CCH) is an acute and general short-term healthcare provider and nursing home formed to provide services to Claiborne County and the surrounding communities. CCH is the sole shareholder of Claiborne Home Health Care, a for-profit home health agency, and Multi-Specialty Medical, P.C., a for-profit physicians' office, whose financial statements are consolidated with those of CCH. In addition, CCH is the primary beneficiary of the fundraising activities of Claiborne County Healthcare Foundation, Inc. (the Foundation). As such, the financial activity of the Foundation is included (blended) in the consolidated financial statements of CCH and its subsidiaries. CCH, the for-profit subsidiaries and the Foundation are collectively referred to as the Hospital.

The Hospital is a component unit of the County of Claiborne, Tennessee (the County), which issues debt on the Hospital's behalf (*Note 7*). The Hospital's board members are appointed by the Board of Commissioners of Claiborne County. The Hospital is included as a discretely presented component unit in the financial statements of the County.

Basis of Presentation

The Hospital's financial statements are presented on the accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (Statement 34). Statement 34 establishes standards for external financial reporting for all state and local governmental entities. Statement 34 requires the classification of net assets into three components which are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of property and equipment, net of accumulated depreciation, and unamortized debt expense reduced by the outstanding balances of bonds and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net assets use by external sources.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

The Hospital uses enterprise fund accounting and follows the Financial Accounting Standards Board Statements and Interpretations issued before November 30, 1989 to the extent that those standards do not conflict with or contradict GASB guidance.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Description of Reporting Entity and Significant Accounting Policies (continued)

Principles of Consolidation

The consolidated financial statements include the accounts of CCH its for-profit subsidiaries and the Foundation after elimination of all significant intercompany accounts and transactions.

Cash and Cash Equivalents

The Hospital considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Patient Accounts Receivable

Accounts receivable from patients and third-party payors (*Note 4*) are recorded on the accrual basis in the period in which services are rendered. The Hospital does not require collateral on accounts receivable. Accounts are charged to bad debt expense as they are determined to be uncollectible based upon a review of aging and collections. The Hospital establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific patients, historical trends and other information.

Inventories

Inventories are stated at the lower of cost or market and are valued principally by methods which approximate the first-in, first-out method.

Property and Equipment

Land, buildings and equipment are stated on the basis of cost or fair value at date of donation. Although title to certain land and buildings rests with the County, these assets have been recorded by the Hospital as the County has authorized their use by the Hospital. Repairs and maintenance costs are expensed as incurred while significant asset purchases and improvements are capitalized. Depreciation of property and equipment is computed by the straight-line method over the estimated useful lives of the assets. The estimated useful lives are based on guidelines established for the healthcare industry, which are summarized as follows:

Land improvements	8 to 25 years
Buildings, improvements and fixed equipment	10 to 40 years
Equipment	3 to 15 years

Bond Issuance Costs

Bond issuance costs are being amortized by the straight-line method over the life of the related bond obligations (*Note 7*).

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Description of Reporting Entity and Significant Accounting Policies (continued)

Accrued Compensated Absences

The Hospital recognizes an expense and accrues a liability for compensated future employee absences in the period in which employees' rights to such compensated absences are earned.

Operating Revenues and Expenses

Revenue and expenses associated with the Hospital's mission of providing healthcare services are considered to be operating activities. Nonoperating revenue consists primarily of investment income, including interest income and income from rental of Medical Office Building suites, as well as grants and general contributions to the Hospital.

Income Taxes

CCH is classified as a governmental organization exempt from income tax. The Foundation is a not-for-profit organization defined by Section 501(c)(3) of the Internal Revenue Code as other than a private foundation. Accordingly, no provision for income taxes has been included in the consolidated accompanying financial statements for these entities. Income taxes related to Claiborne Home Health Care and Multi-Specialty Medical, P.C., if any, are included in other operating expenses (*Note 11*).

Charity Care

The Hospital accepts patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Charges at established rates related to charity care are not included in net patient service revenue.

Patient Service Revenue

Patient service revenue is reported in the period in which services are provided, at rates which reflect the amount expected to be collected. Net patient service revenue includes amounts estimated by management to be reimbursable by third party payors under provisions of reimbursement formulas in effect and is net of the provision for bad debts.

Risk Management

The Hospital is self-insured for employee (including dependent) group health expenses and claims (*Note 5*). Commercial insurance is purchased for significant exposure to various other risks typical to the Hospital's operating environment and industry such as loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. There were no significant losses in excess of insurance coverage during the last three years.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Description of Reporting Entity and Significant Accounting Policies (continued)

Restatement and Reclassifications

In reporting periods prior to 2010, the Claiborne County Healthcare Foundation was not included in the Hospital's consolidated financial statements. The financial statements of the Foundation have now been blended with the Hospital's financial statements for 2010 and 2009 amounts have been restated for consistency in presentation.

Additionally, certain 2009 amounts were reclassified for consistency with 2010 presentation. Proceeds of notes payable totaling \$1,050,000 have been reclassified to assets whose use is limited as these proceeds are restricted for use in completing the Hospital's Medical Office Building project (*Notes 6 and 7*).

Use of Estimates

The preparation of 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 disclosures 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.

Subsequent Events

The Hospital has evaluated subsequent events through June 14, 2011, the date which the financial statements were available to be issued.

2. Cash and Cash Equivalents

The Hospital's cash and cash equivalent balances are fully insured or collateralized against custodial credit risk. Funds on deposit at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) with uninsured amounts being fully collateralized primarily through the financial institutions' participation in the Bank Collateral Pool (the Collateral Pool), which is administered by the Collateral Pool Board and monitored by the Treasury Department of the State of Tennessee. Financial institutions not participating in the Collateral Pool have collateralized uninsured funds on deposit with state and local government securities held by the agent in the County's name for the benefit of the Hospital.

The Hospital has no formal policy relating to deposit limitations, custodial credit risks, or interest rate risks but requires that all public funds (those not related to for profit entities) not insured by the FDIC to be part of the Collateral Pool or fully collateralized by specific investments as described above.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Cash and Cash Equivalents (continued)

Cash totaling \$1,012,532 reported as assets limited for use is held at financial institutions in accounts owned by the County. These funds are authorized to be used directly for the benefit of the Hospital and as such, are reported as assets of the Hospital on the balance sheet at June 30, 2010.

3. Net Patient Service Revenue

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the statements of revenues, expenses and changes in net assets is as follows:

	Year ended June 30	
	2010	2009
Gross patient service charges	\$81,651,187	\$89,692,209
Contractual adjustments and discounts	(46,411,935)	(52,049,090)
Charity care charges foregone	(689,039)	(696,841)
Provision for bad debts	(4,145,360)	(5,069,723)
Net patient service revenue	<u>\$30,404,853</u>	<u>\$31,876,555</u>

4. Third Party Payor Agreements

The Hospital renders services to patients under contractual arrangements with the Medicare and TennCare programs. Laws, regulations and contracts governing third party payor programs can be extremely complex and subject to interpretation. Amounts earned under these contractual arrangements are subject to regulatory review and final determination by the various program intermediaries and other appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made in the consolidated financial statements for any adjustments which may result from such reviews.

The Medicare program pays for inpatient services on a prospective basis primarily based upon diagnostic related group assignments as determined by the patient's clinical diagnosis and medical procedures utilized. The Hospital receives additional payments from Medicare based on the provision of services to a disproportionate share of low income patients (as defined by the Medicare program). Medicare also pays for outpatient services on a prospective basis based upon ambulatory payment classifications and fee schedules. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts.

Contractual adjustments for Medicare, TennCare and other third party discount arrangements are recognized when the related revenues are reported in the consolidated financial statements. The percentage of gross patient charges from the Medicare and TennCare programs was approximately 39% and 25%, respectively, for 2010 and 41% and 19%, respectively, in 2009.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Third Party Payor Agreements (continued)

The Hospital has also entered into reimbursement agreements with commercial insurance companies, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates, per diems and discounts from established charges.

5. Malpractice and Employee Group Health Claims

The Hospital is covered under the “Tennessee Governmental Tort Liability Act” (T.C.A. 29-20-101, et seq.). In addition to requiring claims be made in conformance with this Act, special provisions include, but are not limited to, special notice of requirements imposed upon the claimant, a one year statute of limitations, and a requirement that the governmental entity purchase insurance or be self-insured with certain limits. This Act also prohibits a judgment or award exceeding the minimum amounts of insurance coverage set out in the Act or the amount of insurance purchased by the governmental entity.

The Hospital provides professional liability coverage through a claims-made medical malpractice insurance policy with an independent carrier. The policy covers all claims reported to the carrier during the coverage period. At June 30, 2010, the Hospital is involved in medical malpractice litigation in which management of the Hospital, after consultation with legal counsel, is of the opinion that liability, if any, related to these claims would not be material to the consolidated financial statements. No amounts are accrued for potential losses related to unreported incidents or reported incidents which have not yet resulted in asserted claims as the Hospital is not able to estimate such amounts.

The Hospital is self-insured for employee (and dependent) group health claims up to \$60,000 per covered person annually. Commercial insurance coverage is purchased for claims in excess of the annual maximum. A liability is recorded for those claims known but unpaid and estimated claims incurred but not reported. Changes in estimates are recorded in the year the estimates are revised. The liability for employee group health claims was \$96,930 and \$325,311 at June 30, 2010 and 2009, respectively. The total expense related to employee group health claims (net of employee paid premiums) was approximately \$1,236,000 and \$2,145,000 for 2010 and 2009, respectively.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment

A summary of changes in property and equipment as of June 30, 2010, is as follows:

	Balance July 1, 2009	Additions	Retirements and Transfers	Balance June 30, 2010
Cost:				
Land	\$ 308,092	\$ –	\$ –	\$ 308,092
Buildings and improvements	18,112,319	8,130	–	18,120,449
Equipment	14,052,309	617,495	–	14,669,804
Construction in progress	156,022	201,526	(17,037)	340,511
Total cost	<u>32,628,742</u>	<u>827,151</u>	<u>(17,037)</u>	<u>33,438,856</u>
Allowances for depreciation:				
Buildings and improvements	6,388,511	561,689	–	6,950,200
Equipment	10,921,911	811,567	–	11,733,478
Total allowances for depreciation	<u>17,310,422</u>	<u>1,373,256</u>	<u>–</u>	<u>18,683,678</u>
Net property and equipment	<u>\$15,318,320</u>	<u>\$ (546,105)</u>	<u>\$ (17,037)</u>	<u>\$14,755,178</u>

A summary of changes in property and equipment as of June 30, 2009, is as follows:

	Balance July 1, 2008	Additions	Retirements and Transfers	Balance June 30, 2009
Cost:				
Land	\$ 308,092	\$ –	\$ –	\$ 308,092
Buildings and improvements	17,913,655	198,664	–	18,112,319
Equipment	13,504,440	547,869	–	14,052,309
Construction in progress	54,590	101,432	–	156,022
Total cost	<u>31,780,777</u>	<u>847,965</u>	<u>–</u>	<u>32,628,742</u>
Allowances for depreciation:				
Buildings and improvements	5,898,594	489,917	–	6,388,511
Equipment	10,123,221	798,690	–	10,921,911
Total allowances for depreciation	<u>16,021,815</u>	<u>1,288,607</u>	<u>–</u>	<u>17,310,422</u>
Net property and equipment	<u>\$ 15,758,962</u>	<u>\$ (440,642)</u>	<u>\$ –</u>	<u>\$ 15,318,320</u>

During 2010, the Hospital completed construction and remodeling related to an 8 bed inpatient rehabilitation facility (IRF). As of June 30, 2010 and 2009, costs related to the IRF included in construction in progress totaled \$340,511 and \$156,022, respectively. The IRF project was completed and the unit opened on July 5, 2010.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment (continued)

The Hospital has a contract to complete construction of the second floor of the Medical Office Building (the MOB) to include three physician practice suites. As of June 30, 2010, estimated costs to complete the construction totaled \$409,000.

Subsequent to June 30, 2010, the Board approved and the Hospital committed to purchase a digital mammography unit for approximately \$460,000.

Also subsequent to June 30, 2010, the Board approved and the Hospital entered into a contract to complete the construction of the unfinished portion of the Medical Office Building (the MOB). The estimated cost to complete this portion of the MOB is \$208,000.

7. Bonds Payable

Changes in bonds payable are summarized as follows:

	Balance July 1, 2009	Additions	Principal Payments	Balance June 30, 2010
Series 1997 Bonds	\$ 725,000	\$ —	\$ (725,000)	\$ —
Series 1998 Bonds	571,337	—	(571,337)	—
Series V-J-1 Bonds	2,980,000	—	(2,980,000)	—
Series V-J-2 Bonds	1,030,000	—	(1,030,000)	—
Series 2010A Bonds	—	4,130,000	—	4,130,000
Series 2010A New Money Bonds	—	985,000	—	985,000
Series 2010B Bonds	—	1,075,000	—	1,075,000
Total outstanding	<u>5,306,337</u>	<u>\$6,190,000</u>	<u>\$(5,306,337)</u>	<u>6,190,000</u>
Less unamortized discount	(28,143)			(34,363)
Plus unamortized premium	—			189,997
Less deferred refunding loss	—			(59,455)
Less current portion	<u>(140,000)</u>			<u>(215,000)</u>
Long-term portion	<u>\$5,138,194</u>			<u>\$6,071,179</u>

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Bonds Payable (continued)

	Balance July 1, 2008	Additions	Principal Payments	Balance June 30, 2009
Series 1997 Bonds	\$ 785,000	\$ –	\$ (60,000)	\$ 725,000
Series 1998 Bonds	649,115	–	(77,778)	571,337
Series V-J-1 Bonds	–	2,980,000	–	2,980,000
Series V-J-2 Bonds	–	1,030,000	–	1,030,000
Total outstanding	1,434,115	<u>\$4,010,000</u>	<u>\$(137,778)</u>	5,306,337
Less unamortized discount	–			(28,143)
Less current portion	<u>(137,778)</u>			<u>(140,000)</u>
Long-term portion	<u>\$1,296,337</u>			<u>\$5,138,194</u>

On September 1, 1997, the County issued on behalf of CCH \$1,200,000 in the Hospital Revenue and Tax Bonds, Series 1997. The proceeds of these bonds were used to construct the 100-bed nursing home facility. On March 1, 1998, the County issued on behalf of CCH, General Obligation Refunding Bonds, Series 1998. A portion of the proceeds of the Series 1998 bonds were used to defease \$835,000 of the CCH's Series 1995 bonds. The Series 1997 Bonds and the Series 1998 Bonds were repaid through issue of Series 2010A Claiborne County, Tennessee General Obligation Bonds.

On March 1, 2009, the County issued on behalf of CCH, Local Government Public Improvements Bonds, Series V-J-1 and V-J-2. Series V-J-1, the Hospital Tax Exempt Portion, was issued at 4% for \$2,980,000. These bonds mature on December 1, 2010. Series V-J-2, the Taxable Hospital Portion, was issued at 4.5% for \$1,030,000 and were repaid through issue of Series 2010A Claiborne County, Tennessee General Obligation Bonds.

On March 30, 2010, the County issued on behalf of CCH \$6,190,000 of Series 2010A tax exempt and 2010B taxable bonds. Interest on these bonds ranges from 2.5% to 4.125% for Series 2010A and 1% to 4.6% for Series 2010B. The Series 2010A tax exempt bond proceeds of \$2,326,353 were used to refund the Series 1997 and 1998 Bonds on April 30, 2010. On June 1, 2010, escrowed funds from the 2010A bond issue were used to repay the 2009 Series V-J-2 Taxable Bonds. As of June 30, 2010, escrowed Series 2010A bond proceeds totaling \$3,039,600 were held with the bond trustee, and used to refund the 2009 Series V-J-1 Tax Exempt Bonds on the maturity date of December 1, 2010 in the amount of \$2,980,000 plus accrued interest of \$59,600. As the proceeds are held by the bond trustee, the debt is considered to be extinguished at June 30, 2010.

The Series 2010A bonds are subject to redemption at the option of CCH, in whole or in part, at the redemption price of par plus accrued interest to the redemption date.

Claiborne County Hospital and Nursing Home and Subsidiaries
Notes to Consolidated Financial Statements (continued)

7. Bonds Payable (continued)

Maturities related to the balances outstanding as of June 30, 2010, are summarized as follows:

	Series 2010A	Series 2010B	Total
2011	\$ 120,000	\$ 95,000	\$ 215,000
2012	300,000	95,000	395,000
2013	355,000	100,000	455,000
2014	355,000	100,000	455,000
2015	370,000	105,000	475,000
2016 – 2020	1,205,000	580,000	1,785,000
2021 – 2025	1,085,000	–	1,085,000
2026 – 2030	1,325,000	–	1,325,000
	\$5,115,000	\$1,075,000	\$6,190,000

Future interest payments related to the bonds are as follows:

	Series 2010A	Series 2010B	Total
2011	\$ 194,582	\$35,353	\$ 229,935
2012	191,044	34,305	225,349
2013	182,044	32,595	214,639
2014	171,394	30,345	201,739
2015	160,744	27,645	188,389
2016 – 2020	612,670	78,475	691,145
2021 – 2025	399,130	–	399,130
2026 – 2030	164,781	–	164,781
	\$2,076,389	\$238,718	\$2,315,107

The bonds are payable from the net revenues of the Hospital and collateralized by the ad valorem taxes to be levied on all taxable property within the corporate limits of the County.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Notes Payable and Capital Leases

In March and May 2008, the Hospital obtained two notes through Powell Valley Electric Cooperative (PVEC) as a subrecipient of the Rural Economic Development Loan and Grant Program through the Rural Business Cooperative Service of the United States Department of Agriculture. Proceeds from the respective notes, in the amounts of \$360,000 and \$740,000, is restricted for use in constructing and completing the Hospital's Medical Office Building. During 2010, PVEC extended the construction completion period under the notes to March and May 2011. The notes are payable in monthly installments of \$3,000 and \$7,709, respectively, through 2018. Both notes are non-interest bearing. As of June 30, 2010 and 2009, a portion of these notes are included in total assets whose use is limited.

Notes payable and capital lease activity from July 1, 2009 to June 30, 2010, is summarized as follows:

	Balance July 1, 2009	Additions	Principal Payments	Balance June 30, 2010
PVEC	\$ 312,000	\$ –	\$ (36,000)	\$ 276,000
PVEC	740,000	–	(15,418)	724,582
Bank note payable	597,682	–	(326,923)	270,719
Capital leases	200,971	149,692	(75,298)	275,365
Total outstanding	<u>1,850,653</u>	<u>\$149,692</u>	<u>\$(453,679)</u>	<u>1,546,666</u>
Less current portion	<u>(446,657)</u>			<u>(535,152)</u>
Long-term portion	<u>\$1,403,996</u>			<u>\$1,011,514</u>

Notes payable and capital leases from July 1, 2008 to June 30, 2009, is summarized as follows:

	Balance July 1, 2008	Additions	Principal Payments	Balance June 30, 2009
Equipment notes payable	\$ 45,371	\$ –	\$ (45,371)	\$ –
PVEC	348,000	–	(36,000)	312,000
PVEC	740,000	–	–	740,000
Bank note payable	921,346	–	(323,664)	597,682
Capital leases	277,158	–	(76,187)	200,971
Total outstanding	<u>2,331,875</u>	<u>\$ –</u>	<u>\$(481,222)</u>	<u>1,850,653</u>
Less current portion	<u>(483,821)</u>			<u>(446,657)</u>
Long-term portion	<u>\$1,848,054</u>			<u>\$1,403,996</u>

With the exception of the PVEC notes, which are non-interest bearing, interest rates on the notes and capital leases range from 3.28% to 6.64%. Monthly installments on the notes range from \$3,000 to \$29,777. Monthly installments on the capital leases range from \$1,032 to \$4,424.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Notes Payable and Capital Leases (continued)

Assets held under capital lease have a total cost of \$368,982 and a net book value of \$336,577 as of June 30, 2010. Amortization of assets under capital lease is included with depreciation expense in the accompanying financial statements.

Scheduled payments on notes payable and capital leases are as follows as of June 30, 2010:

	Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2011	\$ 399,228	\$22,889	\$135,924	\$ 9,941
2012	128,508	—	87,411	3,856
2013	128,508	—	52,029	1,030
2014	128,508	—	—	—
2015	128,508	—	—	—
2016 – 2018	358,042	—	—	—
	\$1,271,302	\$22,889	\$275,364	\$14,827

The Hospital entered into an agreement with a financial institution on December 3, 2010 to obtain a \$500,000 note payable bearing interest at 5.25% per annum and collateralized by the Hospital's accounts receivable. Interest payments on the note are due monthly, with final payment of principal and remaining interest due at maturity on June 30, 2011.

9. Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2010, that have initial or remaining lease terms in excess of one year.

Year ending June 30	Minimum Lease Payments
2011	\$329,858
2012	150,992
2013	113,948
2014	8,296
Total minimum lease payments	\$603,094

Rent expense totaled \$433,075 and \$355,785 for 2010 and 2009, respectively.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Management Agreement and Investment in Radiation Therapy Center

The Hospital entered into a five year agreement with another health system for administrative services during 2004 which was in effect through July 31, 2009. The cost of services under the agreement was approximately \$189,000 annually. Effective August 1, 2009, the Hospital entered into a similar arrangement with a hospital management company. Costs under the new agreement are approximately \$228,000 per year through fiscal year 2014.

Prior to the year ending June 30, 2009 the Hospital entered into a sublease and management agreement with another health system (the Health System) to develop a radiation therapy center (the Center). The agreement and subsequent amendments give the Hospital a 49% undivided interest in the leasehold pursuant to a master facility lease. Additionally, the Hospital is entitled to receive 49% of net income up to 50%, reserving the remaining 50% for future capital needs. The agreement also holds the Hospital responsible for 49% of the Center's expense shortfalls, if any. During 2010, the Hospital received distributions totaling \$105,197 from the Center's operations.

In the event the Hospital is required to divest itself of its interest in this arrangement, the sublease and management agreement shall terminate and all rights, title and interest immediately revert to the Health System. The Hospital's right to receive 49% of net income and obligation to pay 49% of expenses also terminates. In exchange for termination of the Hospital's interest, the Health System will pay an amount equal to 49% of the appraised fair value of the Center, less expenses payable and plus net income receivable which have accrued as of the termination date.

11. Income Taxes

Claiborne County Home Health Care and Multi-Specialty Medical, P.C. report on a calendar year basis for tax purposes. At December 31, 2009, these entities had net operating loss carryforwards of approximately \$4,000,000 for federal and state income tax purposes. The loss carryforwards relate to operating losses generated in current and prior years by these entities and expire in years 2010 thru 2024. The loss carryforwards may be offset against future taxable income as permitted by the Internal Revenue Code and the Tennessee Code Annotated. A valuation reserve, equal to the deferred tax assets arising from the net operating losses, has been established based on an estimate that the potential tax benefits of the loss carryforwards will not be realized.

Claiborne County Hospital and Nursing Home and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Pension Plan

The County and related entities, including the Hospital, participate in the Tennessee Consolidated Retirement System Pension Plan. The multiple-employer plan provides for both employee and employer contributions. Eligible employees are required to contribute 5% of their salaries to the Plan. The Hospital is required to contribute at an actuarially determined rate, which was 5.7% of covered payroll for both 2010 and 2009. The rate for employer contributions will be reevaluated for fiscal year 2011. Contributions by the Hospital totaled \$635,457 and \$652,069 for 2010 and 2009, respectively. During 2010 and 2009, eligible employees contributed \$683,283 and \$719,400, respectively. Funding status, contribution requirements, and trends appear in the financial statements of the County and are not separately identified for the Hospital.

13. Foundation

At June 30, 2010 and 2009, the Foundation's assets and net assets total \$407,394 and \$331,154, respectively, and consist of primarily of cash and inventory. A portion of the cash at June 30, 2010 and 2009 totaling \$102,450 and \$51,029, respectively, is restricted for the purchase of a digital mammography unit for the Hospital. The 2010 statement of revenues, expenses and changes in net assets includes Foundation contribution revenue of \$181,174, net investment income of \$7,521 and distributions and other expenses of \$112,455. The 2009 statement of revenues, expenses and changes in net assets includes Foundation contribution revenue of \$152,883, net investment income of \$5,517 and distributions and other expenses of \$80,940. Separate financial statements of the Foundation are maintained by Hospital management. Except for certain expenses paid directly by the Foundation, the Hospital provides administrative services and pays for operating expenses to support the Foundation's activities.

14. Operating Results and Subsequent Events

In 2010 and recent years, the Hospital's operating losses have reduced working capital and available cash. Operating losses have continued since June 30, 2010 and are expected to continue through at least June 30, 2011. Management's plans with respect to the operating losses include further expense reductions and revenue enhancements.

To meet current working capital needs, the Hospital borrowed \$500,000 from a bank in December 2010 (*Note 8*). Also, the Board approved and the Hospital sold its Home Health division for \$2,550,000, effective March 31, 2011. The sale included equipment with a net book value of approximately \$1,000 and a non-compete agreement. The Hospital received \$2,191,840 in cash, net of \$108,160 in transaction costs and a promissory note for \$250,000 from the buyer. The gain on the transaction is approximately \$2,440,000 and will be recognized in the fiscal year ending June 30, 2011.

Claiborne County Hospital and Nursing Home and Subsidiaries

List of Officials (Unaudited)

June 30, 2010

Board of Directors

Chairman, Mayor Jack Daniels
County Attorney, James Estep III, Esq.
Vice Chairman, Robert Asbury, Esq.
Secretary, Lindsey Cadle, Esq.
Betsy Shoffner, RN
Bill DeBusk
John Russell
Russell Essary, Pharm.D.
Terry England

Medical Chief of Staff

Christopher Yonts, D.O.

Executive Administration

CEO/Administrator, Timothy S. Brown

Report of Independent Auditors 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*

Board of Directors
Claiborne County Hospital and Nursing Home, Inc.

We have audited the consolidated financial statements of Claiborne County Hospital and Nursing Home, Inc. and Subsidiaries (the Hospital) as of and for the year ended June 30, 2010 and have issued our report thereon dated June 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's 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 of this section 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.

Board of Directors
Claiborne County Hospital and Nursing Home, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated 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 solely for the information and use of the Board of Directors, management, others within the Hospital, the State of Tennessee Comptroller of the Treasury, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Coulter & Justus, P. C.

June 14, 2011