

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2010 and 2009

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Years Ended June 30, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Rhea Medical Center (a component unit of Rhea County, Tennessee)

We have audited the accompanying financial statements of Rhea Medical Center (a component unit of Rhea County, Tennessee) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Rhea Medical Center's (a component unit of Rhea County, Tennessee) management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 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 Rhea Medical Center (a component unit of Rhea County, Tennessee) 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 our report dated November 22, 2010, on our consideration of Rhea Medical Center's (a component unit of Rhea County, Tennessee) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the accompanying financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules listed as supplementary in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of Rhea Medical Center (a component unit of Rhea County, Tennessee). Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Burk, Pearlman, Nelson & Higgins, PLLC

Chattanooga, Tennessee
November 22, 2010

RHEA MEDICAL CENTER
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Rhea Medical Center's (the Medical Center's) financial performance provides an overview of the Medical Center's financial activities for the fiscal years ended June 30, 2010 and 2009. Please read it in conjunction with the Medical Center's financial statements, which begin on page 10.

Financial Highlights

- On July 1, 2009 the Medical Center sold the Nursing Home to Life Care Centers of America. The sale resulted in a gain of \$1,308,815 offset by a \$500,000 transfer of proceeds to Rhea County. (See Note P to the Financial Statements for details on the sale.)
- The Medical Center's net assets increased in each of the past two years with a \$1,106,725 or 7% increase in 2010 and a \$1,194,937 or 8% increase in 2009. The Medical Center reported operating income in both 2010 and 2009. Operating revenues decreased 20% over 2009, while operating expenses decreased at a rate of 17% in 2010.

Using This Annual Report

The Medical Center's financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net assets and changes in them. Net assets, which is the difference between assets and liabilities, is one way to measure the Medical Center's financial health, or financial position. Over time, increases or decreases in the Medical Center's net assets indicate whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

RHEA MEDICAL CENTER
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The Statement of Cash Flows

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

The Medical Center's Net Assets

The Medical Center's net assets are the difference between its assets and liabilities reported in the Balance Sheet on pages 10 and 11. The Medical Center's net assets increased in each of the past two years with a \$1,106,725 or 7% increase in 2010 and a \$1,194,937 or 8% increase in 2009. See Exhibit One for an illustration.

Exhibit One: Assets, Liabilities, and Net Assets

	<u>2010</u>	<u>2009</u>
Assets:		
Current assets	\$13,803,190	\$13,131,430
Capital assets, net,	28,889,765	30,473,409
Non-current cash and investments	1,508,838	255,812
Other assets	678,147	399,390
Total assets	<u>\$44,879,940</u>	<u>\$44,260,041</u>
Liabilities		
Current liabilities	\$4,290,374	\$3,791,971
Long-term debt outstanding	22,958,572	23,924,882
Other liabilities	300	19,219
Total liabilities	<u>\$27,249,246</u>	<u>\$27,736,072</u>
Net assets:		
Invested in capital assets, net of related debt	\$4,965,263	\$5,616,264
Unrestricted	12,423,893	10,671,112
Unrestricted-Board Designated	241,538	236,593
Total Net Assets	<u>\$17,630,694</u>	<u>\$16,523,969</u>

RHEA MEDICAL CENTER
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Assets increased by \$619,899 or 1% during 2010. A significant component of the change in the Medical Center's assets is the increase in current assets. Current assets increased \$671,760 due to a \$2,350,313 increase in cash (See Statements of Cash Flows for a detail of the changes in cash) and current investments. The net increase in cash/investments was reduced by a \$626,825 decrease in estimated third-party receivables. The increase in cash/investments and the decrease in receivables are partially a result of the nursing home sale. (See Note P to the financial statements for details on the sale.) Noncurrent Cash and Investments increased \$1,253,026 as a result of investing excess cash from operations and the nursing home sale. The increase in current assets was partially offset by a \$1,583,644 decrease in capital assets. Higher depreciation expense related to the new facility and the associated new equipment increased accumulated depreciation by \$1,748,366 (See Note A to the financial statements for an explanation of the Medical Center's capitalization policies and Note F for a detail of capital assets). Liabilities decreased by \$486,826. Current liabilities increased \$498,403 due to a \$846,303 increase in estimated third-party settlements (See Note C to the financial statements for a summary of the basis of reimbursement with major third party payors) and a \$370,813 decrease in accounts payable. The long-term debt portion of debt decreased by \$966,310 due to the maturing of debt (See Note H to the financial statements for a detail of long-term debt).

Operating Results and Changes in the Medical Center's Net Assets

The Medical Center's net assets increased by \$1,106,725 or 7% in 2010 and \$1,194,937 or 8% in 2009, as shown in Exhibit 2. The increase in 2010 is primarily due to the increases discussed above. Operating income decreased in 2010 by \$1,099,785 or 72% and decreased in 2009 by \$244,223 or 14%, respectively.

RHEA MEDICAL CENTER
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Exhibit 2: Operating Results and Changes in Net Assets

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES:		
Net patient service revenue	\$17,623,500	\$22,500,915
Other revenue	<u>586,502</u>	<u>381,360</u>
TOTAL OPERATING REVENUES	<u>18,210,002</u>	<u>22,882,275</u>
OPERATING EXPENSES:		
Salaries and benefits	9,301,277	11,293,526
Medical supplies and drugs	1,652,990	1,826,692
Other supplies	376,751	667,763
Insurance	198,904	468,947
Depreciation	1,967,211	1,890,330
Other expenses	<u>4,279,748</u>	<u>5,202,111</u>
TOTAL OPERATING EXPENSES	<u>17,776,881</u>	<u>21,349,369</u>
OPERATING INCOME	<u>433,121</u>	<u>1,532,906</u>
NONOPERATING REVENUES (EXPENSES)		
Gain on Sale of Nursing Home	1,308,815	0
Interest income	15,115	28,697
Interest expense	(212,126)	(404,966)
Noncapital contribution	26,000	560
Noncapital grants	<u>35,800</u>	<u>37,740</u>
TOTAL NONOPERATING REVENUES (EXPENSES), net	<u>1,173,604</u>	<u>(337,969)</u>
EXCESS OF REVENUES OVER EXPENSES	1,606,725	1,194,937
Transfer to Rhea County, Tennessee	<u>(500,000)</u>	<u>--</u>
Increase in Net Assets	1,106,725	1,194,937
Net assets at beginning of year	<u>16,523,969</u>	<u>15,329,032</u>
Net assets at end of year	<u>\$17,630,694</u>	<u>\$16,523,969</u>

RHEA MEDICAL CENTER
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

Operating Income

The first component of the overall change in the Medical Center's net assets is its operating income – generally the difference between net patient service revenues and the expenses incurred to perform those services. In the past two years, the Medical Center has reported operating income.

The primary components of the operating income in 2010 are:

- Net patient service revenue decreased by \$4,877,415 or 22%. The sale of the Nursing Home was responsible for \$3,963,906 of the reduction in net patient revenue. The hospital only net patient revenue decreased \$913,509. Patient revenue before deductions decreased by \$437,279. The decrease in patient revenue is due to a 6% decrease in patient days. The decrease in days was due to a lower than average flu season. In addition to the decrease in patient revenue, bad debts and charity care (See Note J to the financial statements for an explanation of charity care) increased \$405,829 or 10%. The increase in bad debts and charity care is a result of the economy and local unemployment rate which has increased the number of patients without insurance.
- Other revenue increased by \$205,142 or 54% in 2010. The increase was due to \$348,000 of rent income on the nursing home and old hospital facility (See Note P to the financial statements). The increase in rent income was offset by a reduction in insurance premium rebates. Insurance premium rebates decreased by \$83,505.
- Salaries and related benefits decreased by \$1,992,249 due to the sale of the nursing home. The sale of the nursing home eliminated sixty-seven full time equivalent positions from the Medical Center's payroll. The employees impacted by the sale of the nursing home were hired by Life Care Centers of America as part of the sale agreement.
- Medical supplies and drugs and other supplies decreased by \$173,702 and \$291,012 respectively due to lower inpatient volumes and the sale of the nursing home.
- Insurance expense decreased by \$270,043 due to lower premiums on professional liability and workers compensation. The reduced premiums related to coverage on the nursing home.

Nonoperating Revenues

Nonoperating revenues for 2010 include \$1,308,815 for the gain on the sale of the nursing home (See Note P to the financial statements for details on this transaction). Interest expense of \$212,196 is included in nonoperating expenses. Due to the financing of the new facility as discussed in Note H of the financial statement, interest expense decreased \$192,840 or 48% due lower interest rates.

RHEA MEDICAL CENTER
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)

The Medical Center's Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in prepaid assets; property, plant, and equipment, net; repayments of debt; operating income and nonoperating income, as discussed earlier.

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2010, the Medical Center had \$28,889,765 invested in capital assets, net of accumulated depreciation, as detailed in Note F to the financial statements. During fiscal year 2010, the Medical Center purchased equipment and other depreciable assets of \$451,570 (reduced by \$1,960,962 in related depreciation expense on the balance sheet and retirements net of accumulated depreciation of \$74,252 due to the sale of the nursing home).

Debt. In 2007 the Medical Center entered into a capital lease to purchase a MRI machine. The MRI lease has an outstanding principal balance of \$371,328 at June 30, 2010. In 2007, the Medical Center entered a capital lease to purchase a CT system. The CT system lease has an outstanding principal balance of \$144,174 at June 30, 2010. In 2006, the Medical Center obtained funding of \$24,100,000 to construct a replacement facility as detailed in Note H to the financial statements.

Other Economic Factors

The current economic situation that the country is facing could have a negative impact on the local economy. If companies in Rhea County lay off employees then the Medical Center could see an increase in uninsured patients which would lead to higher bad debt expense and charity care.

Due to both the national and local shortages of healthcare professionals, the Medical Center faces stiff competition in retaining and the recruitment of new employees. Management focuses on this issue in a number of ways including by meeting with local healthcare education programs to encourage student outplacement, offering scholarships to students in healthcare careers, monitoring compensation trends and adjusting compensation as necessary.

Contacting the Medical Center's Financial Management

This financial report is designed to provide our patients, suppliers, creditors and other stakeholders with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. Any questions about this report or requests for additional financial information should be directed to Rhea Medical Center, Department of Finance, 9400 Rhea County Highway, Dayton, Tennessee 37321.

**RHEA MEDICAL CENTER
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)**

Rhea Medical Center Board of Directors consists of the following individuals:

Ronald L. Raper, Board Chairman
James F. Porter, Sr., Board Vice Chairman
Barbara Mauldin
Chris Goodwin
Gene Elsea
Bill Hollin
Dr. Chetan Shah

Senior management of Rhea Medical Center consists of the following officers:

Kennedy Croom, Jr., Chief Executive Officer
Harvey Sanders, Chief Financial Officer

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

BALANCE SHEETS

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 6,747,009	\$ 7,532,959
Patient accounts receivable, net of estimated uncollectibles of \$1,635,000 in 2010 and \$1,470,000 in 2009	2,859,764	3,794,618
Investments - current	3,136,263	--
Estimated third-party payor settlements	270,746	897,571
Inventories	402,671	457,505
Prepaid expenses	43,075	86,212
Other assets	<u>343,662</u>	<u>362,565</u>
TOTAL CURRENT ASSETS	<u>13,803,190</u>	<u>13,131,430</u>
NONCURRENT CASH AND INVESTMENTS		
Internally designated for capital acquisitions	241,538	236,593
Patient trust funds	--	18,297
Activity funds	300	922
Investments - noncurrent	<u>1,267,000</u>	<u>--</u>
TOTAL NONCURRENT CASH AND INVESTMENTS	<u>1,508,838</u>	<u>255,812</u>
CAPITAL ASSETS		
Land	2,362,514	2,362,514
Depreciable capital assets, net of accumulated depreciation	<u>26,527,251</u>	<u>28,110,895</u>
TOTAL CAPITAL ASSETS, net	<u>28,889,765</u>	<u>30,473,409</u>
OTHER ASSETS		
Bond issuance costs	143,707	149,956
Other assets	<u>534,440</u>	<u>249,434</u>
TOTAL OTHER ASSETS	<u>678,147</u>	<u>399,390</u>
TOTAL ASSETS	<u>\$44,879,940</u>	<u>\$44,260,041</u>

See accompanying notes to financial statements.

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

BALANCE SHEETS

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 965,930	\$ 932,263
Accounts payable	542,699	913,512
Accrued payroll	614,349	681,052
Other accrued expenses	384,098	328,149
Estimated third-party payor settlements	<u>1,783,298</u>	<u>936,995</u>
TOTAL CURRENT LIABILITIES	<u>4,290,374</u>	<u>3,791,971</u>
LONG-TERM DEBT, net of current maturities	<u>22,958,572</u>	<u>23,924,882</u>
OTHER LIABILITIES		
Patient trust funds	--	18,297
Activity funds	<u>300</u>	<u>922</u>
TOTAL OTHER LIABILITIES	<u>300</u>	<u>19,219</u>
TOTAL LIABILITIES	<u>27,249,246</u>	<u>27,736,072</u>
NET ASSETS		
Invested in capital assets net of related debt	4,965,263	5,616,264
Unrestricted	12,423,893	10,671,112
Unrestricted-board designated	<u>241,538</u>	<u>236,593</u>
TOTAL NET ASSETS	<u>17,630,694</u>	<u>16,523,969</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$44,879,940</u>	<u>\$44,260,041</u>

See accompanying notes to financial statements.

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE		
Net patient service revenue	\$17,623,500	\$22,500,915
Other revenue	<u>586,502</u>	<u>381,360</u>
 TOTAL OPERATING REVENUE	 <u>18,210,002</u>	 <u>22,882,275</u>
OPERATING EXPENSES		
Salaries and benefits	9,301,277	11,293,526
Medical supplies and drugs	1,652,990	1,826,692
Other supplies	376,751	667,763
Insurance	198,904	468,947
Depreciation and amortization	1,967,211	1,890,330
Other expenses	<u>4,279,748</u>	<u>5,202,111</u>
 TOTAL OPERATING EXPENSES	 <u>17,776,881</u>	 <u>21,349,369</u>
 OPERATING INCOME	 <u>433,121</u>	 <u>1,532,906</u>
NONOPERATING REVENUES (EXPENSES)		
Gain on sale of nursing home business	1,308,815	--
Interest income	15,115	28,697
Interest expense	(212,126)	(404,966)
Noncapital contribution	26,000	560
Noncapital grants	<u>35,800</u>	<u>37,740</u>
 TOTAL NONOPERATING REVENUES (EXPENSES), net	 <u>1,173,604</u>	 <u>(337,969)</u>
EXCESS OF REVENUES OVER EXPENSES	1,606,725	1,194,937
Transfer to Rhea County, Tennessee	<u>(500,000)</u>	<u>--</u>
 INCREASE IN NET ASSETS	 1,106,725	 1,194,937
Net assets at beginning of year	<u>16,523,969</u>	<u>15,329,032</u>
Net assets at end of year	<u>\$17,630,694</u>	<u>\$16,523,969</u>

See accompanying notes to financial statements.

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$16,045,608	\$19,416,648
Cash payments to suppliers for goods and services	(5,120,603)	(7,398,710)
Cash payments to employees for services	(7,252,892)	(8,634,855)
Other revenue	<u>586,502</u>	<u>381,360</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>4,258,615</u>	<u>3,764,443</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions	61,800	38,300
Sale of nursing home business	1,308,815	--
Transfer to Rhea County, Tennessee	<u>(500,000)</u>	<u>--</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>870,615</u>	<u>38,300</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on debt	(212,126)	(404,966)
Purchase of property and equipment	(451,570)	(485,217)
Payments on long-term debt	(932,643)	(230,511)
Proceeds from sale of property and equipment	<u>74,252</u>	<u>--</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(1,522,087)</u>	<u>(1,120,694)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	15,115	28,697
Purchases of investments	<u>(4,408,208)</u>	<u>(7,487)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(4,393,093)</u>	<u>21,210</u>
Net increase (decrease) in cash	(785,950)	2,703,259
Cash at beginning of year	<u>7,532,959</u>	<u>4,829,700</u>
Cash at end of year	<u>\$ 6,747,009</u>	<u>\$ 7,532,959</u>

See accompanying notes to financial statements.

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

STATEMENTS OF CASH FLOWS
(Continued)

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 433,121	\$1,532,906
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,967,211	1,890,330
Provision for bad debts	3,985,874	3,686,316
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(3,051,020)	(3,839,839)
Estimated third-party payor settlements	626,825	99,492
Inventories	54,834	(37,949)
Prepaid expenses	43,137	(6,613)
Other assets	(266,103)	(216,274)
Increase (decrease) in:		
Accounts payable	(370,813)	85,851
Accrued payroll	(66,703)	46,249
Other accrued expenses	55,949	98,038
Estimated third-party payor settlements	<u>846,303</u>	<u>425,936</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$4,258,615</u>	<u>\$3,764,443</u>

See accompanying notes to financial statements.

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

Reporting entity. Rhea Medical Center (the Medical Center) is a public corporation. It was created on February 7, 1957, by an act of the State of Tennessee General Assembly to operate, control, and manage the general short-term hospital, intermediate care nursing home, and various health clinics. The Rhea County, Tennessee Board of County Commissioners appoints the Board of Trustee members of the Medical Center, and the Medical Center may not issue debt without the County's approval. For these reasons, the Medical Center is considered to be a component unit of Rhea County and is included as a discretely presented component unit in the basic financial statements of Rhea County, Tennessee (the County).

Enterprise fund accounting. The Medical Center uses the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Accounting standards. 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), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

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.

Net patient service revenue. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. The 2009 net patient service revenue decreased \$61,853 due to prior year retroactive adjustments in excess of amounts previously estimated.

Revenue from the Medicare and Medicaid programs accounted for approximately 39 and 11 percent, respectively, for the year ended June 30, 2010, and 34 and 26 percent, respectively, for the year ended June 30, 2009, of the Medical Center's net patient service revenue. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Charity care. 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.

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Operating revenues and expenses. The Medical Center's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Medical Center's principal activity. Nonexchange revenues, including interest, grants, and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Income taxes. The Medical Center, as a component unit of Rhea County, Tennessee, is exempt from federal and state income taxes.

Inventories. Inventories are stated at the lower of cost (first-in, first-out) or market.

Accounts receivable. Accounts receivable are stated at the amount the Medical Center expects to collect. The Medical Center maintains allowances for doubtful accounts for estimated losses resulting from the inability of its patients to make required payments. Management considers the following factors when determining the collectibility of specific patient accounts: payor credit-worthiness, past transaction history with the payor, current economic industry trends, and changes in payor payment terms. If the financial condition of the Medical Center's payors or patients were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Medical Center provides for estimated uncollectible amounts through a charge to earnings and a credit to an allowance. Balances that remain outstanding after the Medical Center has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

Noncurrent cash and investments. Internally designated for capital acquisition is cash and investments designated by the Board of Trustees for the creation of a health education library. Patients' personal assets and funds held by the Medical Center in an activity fund for the benefit of the patients are held in an agency capacity and are not available for Medical Center use. An offsetting asset and liability are recorded on the balance sheet.

Capital assets. Assets with a useful life of greater than one year and a cost of greater than \$5,000 are recorded as capital assets and are stated at cost. Depreciation is calculated over the estimated useful lives using the straight-line method. Expenditures for maintenance, repairs, renewals and betterments that do not significantly extend the useful lives of the assets are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the books, and any resulting gain or loss is reflected in income for the period.

A summary of estimated useful lives follows.

	<u>Estimated Useful Lives</u>
Land improvements	10 - 15 years
Buildings and improvements	10 - 50 years
Major moveable equipment	5 - 25 years
Fixed equipment	10 - 25 years

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Costs of borrowing. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during 2010 or 2009.

Deposits. The Medical Center considers currency on hand and demand deposits with financial institutions to be cash. The Medical Center considers all highly liquid investments with original maturities of three months or less to be cash equivalents. State statutes authorize the Medical Center to invest in obligations of the U.S. Treasury, bank certificates of deposit, state approved repurchase agreements and pooled investment funds, and state or local bonds rated A or higher by a nationally recognized rating service. There were no cash equivalents at June 30, 2010 and 2009.

Bond issuance costs. The costs incurred in connection with the issuance of the bonds are being amortized using the straight-line method over the term of the bonds.

Risk management. The Medical Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Net assets. Net assets of the Medical Center are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*. There were no restricted assets at June 30, 2010 or 2009.

NOTE B - DEPOSITS AND INVESTMENTS

Custodial credit risk - deposits. Custodial risk is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned to it. The Medical Center's bank balance of deposits was \$6,867,428 and \$7,581,669 at June 30, 2010 and 2009, respectively. The bank balances held in cash accounts and a repurchase agreement are either insured by the Federal Deposit Insurance Corporation or collateralized by the Tennessee Bank Collateral Pool and are not subject to custodial risk.

Interest rate risk. For an investment, this is the risk that a change in interest rates will affect the fair market value of investments held. The Medical Center invests in numerous certificates of deposit through investment companies and a local financial institution. The Medical Center does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates, except to comply with state statutes.

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Custodial risk - investments. The Medical Center's investment is subject to custodial risk as follows:

	<u>2010</u>	<u>2009</u>
<u>Investments</u>		
Insured by the FDIC	\$4,644,801	\$236,593
Collateralized	<u> --</u>	<u> --</u>
	<u>\$4,644,801</u>	<u>\$236,593</u>

The carrying amounts of deposits and investments shown above are included in the Medical Center's balance sheet as follows:

	<u>2010</u>	<u>2009</u>
Carrying amount		
Deposits	\$ 6,745,459	\$7,550,178
Investments	4,644,801	236,593
Cash on hand	<u> 1,850</u>	<u> 2,000</u>
	<u>\$11,392,110</u>	<u>\$7,788,771</u>
Included in the following balance sheet captions		
Cash	\$ 6,747,009	\$7,532,959
Internally designated for capital acquisition	241,538	236,593
Investments	4,403,263	--
Patient trust funds	--	18,297
Activity funds	<u> 300</u>	<u> 922</u>
	<u>\$11,392,110</u>	<u>\$7,788,771</u>

NOTE C - NET 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. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's established rates for services and amounts reimbursed by third-party payors. The Hospital obtained critical access status effective February 1, 2005. A summary of the basis of reimbursement with major third-party payors follows.

Medicare. Inpatient acute care services, outpatient services, inpatient nonacute services, and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and review by the Medicare fiscal intermediary.

TennCare. Inpatient acute care services and outpatient service costs related to TennCare program beneficiaries are paid based upon a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and review by the TennCare fiscal intermediary.

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Medicaid - Intermediate Care. The Medicaid program reimburses the Medical Center for services rendered to Medicaid nursing home beneficiaries based on a prospective per diem rate established by the Medicaid program. The per diem rate established by Medicaid is based on the prior years' cost, subject to a maximum per diem rate set by the State of Tennessee.

Others. The Medical Center has also 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, discounts from established charges, and prospectively-determined daily rates.

NOTE D - INVENTORIES

Inventories on June 30, 2010 and 2009, consist of the following.

	<u>2010</u>	<u>2009</u>
Pharmacy	\$121,822	\$144,415
General supplies	78,944	92,722
Dietary	10,893	11,998
Laboratory	29,333	37,989
X-ray	11,203	19,686
Surgery	<u>150,476</u>	<u>150,695</u>
	<u>\$402,671</u>	<u>\$457,505</u>

NOTE E – CASH AND INVESTMENTS INTERNALLY DESIGNATED FOR CAPITAL ACQUISITIONS

During 2004, the Medical Center received an unrestricted contribution from an anonymous private donor. The Board of Trustees has designated the money, invested in a CD at a local bank, for the creation of a health education library.

NOTE F - CAPITAL ASSETS

A summary of changes in capital assets follows.

	<u>2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>2010</u>
Land	\$ 2,362,514	\$ --	\$ --	\$ 2,362,514
Land improvements	65,951	--	--	65,951
Buildings and improvements	27,475,984	41,102	--	27,517,086
Major moveable equipment	11,300,321	410,468	286,848	11,423,941
Fixed equipment	941,525	--	--	941,525
Construction in progress	--	--	--	--
Totals at historical cost	<u>42,146,295</u>	<u>451,570</u>	<u>286,848</u>	<u>42,311,017</u>
Less accumulated depreciation for:				
Land improvements	58,723	1,537	--	60,260
Buildings and improvements	4,683,918	700,986	--	5,384,904
Major moveable equipment	6,144,346	1,245,607	212,596	7,177,357
Fixed equipment	<u>785,899</u>	<u>12,832</u>	--	<u>798,731</u>
Total accumulated depreciation	<u>11,672,886</u>	<u>1,960,962</u>	<u>212,596</u>	<u>13,421,252</u>
Property and equipment, net	<u>\$30,473,409</u>	<u>\$(1,509,392)</u>	<u>\$ 74,252</u>	<u>\$28,889,765</u>

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>2009</u>
Land	\$ 2,362,514	\$ --	\$--	\$ 2,362,514
Land improvements	65,951	--	--	65,951
Buildings and improvements	27,475,984	--	--	27,475,984
Major moveable equipment	10,784,798	515,523	--	11,300,321
Fixed equipment	941,525	--	--	941,525
Construction in progress	<u>30,306</u>	<u>(30,306)</u>	<u>--</u>	<u>--</u>
Totals at historical cost	<u>41,661,078</u>	<u>485,217</u>	<u>--</u>	<u>42,146,295</u>
Less accumulated depreciation for:				
Land improvements	57,186	1,537	--	58,723
Buildings and improvements	3,979,614	704,304	--	4,683,918
Major moveable equipment	4,979,155	1,165,191	--	6,144,346
Fixed equipment	<u>772,849</u>	<u>13,050</u>	<u>--</u>	<u>785,899</u>
Total accumulated depreciation	<u>9,788,804</u>	<u>1,884,082</u>	<u>--</u>	<u>11,672,886</u>
Property and equipment, net	<u>\$31,872,274</u>	<u>\$(1,398,865)</u>	<u>\$--</u>	<u>\$30,473,409</u>

Amortization of assets acquired under capital lease obligations is included in depreciation expense.

A portion of the original Medical Center building is being rented and the remainder is idle. Building improvements and equipment with a carrying value of \$1,168,626 are idle at June 30, 2010 and 2009.

NOTE G - OTHER ASSETS

The Medical Center pays various fees and expenses to and on behalf of physicians who are recruited to practice at the Medical Center. These expenses are recorded as assets and are amortized over the terms of the physicians' contracts. At June 30, 2010 and 2009, respectively, the assets totaled \$789,526 and \$586,366, net of accumulated amortization.

Other assets also include various lease deposits and prepayments totaling \$88,576 and \$25,633 at June 30, 2010 and 2009, respectively.

NOTE H - LONG-TERM DEBT

	<u>2010</u>	<u>2009</u>
Loan agreement	\$23,409,000	\$24,100,000
Capital lease obligation #1 at an imputed interest rate of 9.6%	144,174	225,539
Capital lease obligation #2 at an imputed interest rate of 4.1%	<u>371,328</u>	<u>531,606</u>
	23,924,502	24,857,145
Less current maturities of long-term debt	<u>965,930</u>	<u>932,263</u>
Long-term debt, net of current maturities	<u>\$22,958,572</u>	<u>\$23,924,882</u>

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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NOTES TO FINANCIAL STATEMENTS
(Continued)

The Public Building Authority of the County of Montgomery, Tennessee issued its "Adjustable Rate Pooled Financing Revenue Bonds, Series 2004" on July 1, 2004, and loaned \$24,100,000 of the proceeds to the Medical Center under a loan agreement with terms substantially identical to terms of the Bonds. The bonds mature on various dates from May 25, 2010 through May 25, 2033.

Principal payments will be made annually as they become due. Interest payments are due monthly. Interest is calculated daily as set forth in the loan agreement (0.44% at June 30, 2010).

The loan agreement is a general obligation of Rhea County, Tennessee.

Capital lease obligation #1 requires monthly installments of \$7,657, including interest, until February 2012. The obligation is secured by a CT system with a cost of \$398,580 and a carrying value of \$126,217 at June 30, 2010.

Capital lease obligation #2 requires monthly installments of \$14,970, including interest, until August 2012. The obligation is secured by an MRI system with a cost of \$808,468 and a carrying value of \$350,336 at June 30, 2010.

Scheduled payments on long-term debt are as follows.

<u>Year Ending June 30</u>	<u>Long Term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest*</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 713,000	\$ 99,862	\$252,930	\$18,591
2012	735,000	96,628	234,327	6,566
2013	758,000	93,293	28,245	157
2014	781,000	89,857	--	--
2015	805,000	86,315	--	--
2016-2020	4,416,000	374,471	--	--
2021-2025	5,145,000	267,894	--	--
2026-2030	5,995,000	143,704	--	--
2031-2033	<u>4,061,000</u>	<u>18,229</u>	<u>--</u>	<u>--</u>
	<u>\$23,409,000</u>	<u>\$1,270,253</u>	<u>\$515,502</u>	<u>\$25,314</u>

*Future interest payments are based on the loan amounts outstanding and interest rates in effect at June 30, 2010, and do not necessarily represent the payments that will be required.

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Activity for long-term debt for 2010 and 2009 follows.

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2010</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$24,100,000	\$ --	\$691,000	\$23,409,000	\$713,000
Capital lease #1	225,539	--	80,978	144,174	85,755
Capital lease #2	<u>531,606</u>	<u>--</u>	<u>160,278</u>	<u>371,328</u>	<u>167,175</u>
Total long-term debt	<u>\$24,857,145</u>	<u>\$--</u>	<u>\$932,256</u>	<u>\$23,924,502</u>	<u>\$965,930</u>

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2009</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$24,100,000	\$--	\$ --	\$24,100,000	\$691,000
Capital lease #1	302,394	--	76,855	225,539	80,985
Capital lease #2	<u>685,262</u>	<u>--</u>	<u>153,656</u>	<u>531,606</u>	<u>160,278</u>
Total long-term debt	<u>\$25,087,656</u>	<u>\$--</u>	<u>\$230,511</u>	<u>\$24,857,145</u>	<u>\$932,263</u>

NOTE I - ACCRUED LEAVE

Medical Center employees are paid for vacation and absence due to sickness by a prescribed formula based on length of service. The costs of these compensated absences are accrued as earned. The accumulated vacation and sick leave benefits accrued totaled \$257,340 and \$276,802 for 2010 and 2009, respectively, and are included with accrued payroll in current liabilities.

NOTE J - CHARITY CARE

The amount of charges forgone for services and supplies furnished under the Medical Center's charity care policy during the years ended June 30, 2010 and 2009, was \$417,907 and \$311,636, respectively.

NOTE K - PENSION PLANS

Effective January 1, 1990, Rhea County Government and related entities including the Medical Center joined the Tennessee Consolidated Retirement System (TCRS), a multiple-employer Public Employee Retirement System (PERS). All full-time personnel employed at or after January 1, 1990, are required to participate in the Tennessee Consolidated Retirement System Pension Plan. The Medical Center contributes the employer's share of pension contributions of 3%, and the employees are required to contribute 5% of their salaries to the plan. Past service costs as of January 1, 1990, were required to be funded upon entering the plan. The Medical Center has chosen to amortize these costs over a thirty-year period by increasing its contribution rate, which is currently 8.72%. Contributions by the Medical Center totaled \$513,569 and \$591,574 in 2010 and 2009, respectively. Information in regard to funding status, contribution requirements, and trends appear in the financial statements of Rhea County and cannot be separately identified for the Medical Center.

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE L - NET WORKING CAPITAL

Net working capital at June 30, 2010 and 2009, was \$9,512,816 and \$9,339,459, respectively.

NOTE M - DESIGNATED NET ASSETS

Net assets reported in 2010 and 2009 include \$241,538 and \$236,593, respectively, which have been designated by the Medical Center's Board of Trustees for capital acquisitions. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

NOTE N - COMMITMENTS AND CONTINGENCIES

Operating leases. Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

Rental expense included in operations amounted to \$174,893 and \$180,920 in 2010 and 2009, respectively.

The Medical Center leases space to physicians and others under leases with various terms. Total rental income for all operating leases was \$501,493 and \$113,291 for 2010 and 2009, respectively.

Rental income is included in other operating revenue in the accompanying financial statements. The cost and accumulated depreciation related to the professional building and other rental property is included in property and equipment as follows:

Cost	\$3,985,190
Accumulated depreciation	<u>3,037,603</u>
Net book value	<u>\$ 947,587</u>

Minimum future rentals to be received on leases, which are cancelable upon 90 days written notice, as of June 30, 2010, for each of the next 5 years, are as follows.

Year Ending June 30,	
2010	\$348,000
2011	<u>348,000</u>
Total minimum future rentals	<u>\$696,000</u>

Professional liability insurance. The Medical Center is insured for professional liability under a claims-made policy with an independent insurance carrier. The policy covers all claims reported to the carrier during the coverage period. Premiums are determined by a variety of factors related to the Medical Center.

Management agreement. A management agreement between the Medical Center and Quorum Health Resources, Inc., (Quorum) was signed on April 24, 2009, with effective dates of March 1, 2009 through

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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NOTES TO FINANCIAL STATEMENTS
(Continued)

February 28, 2016. The annual fee is \$266,917 for the contract year beginning March 1, 2009, increases annually by a factor equal to the lower of five percent or the percentage increase in the Consumer Price Index, and is payable in equal monthly installments. Management services in addition to the fixed fee services are provided by Quorum as needed at varying rates. The total management fees paid to Quorum were \$271,332 and \$256,104 in 2010 and 2009, respectively.

The management services provided pursuant to the fixed fee include budget assistance, accounting supervision, human resources consultations, and access to a Quorum sponsored volume purchasing program. Certain 'administrative fees' may be paid to Quorum by outside vendors that sell goods and services to the Medical Center. The administrative fee payable to Quorum by these outside vendors is equal to 3% or less of the purchase price of the goods or services purchased from the vendor by the Medical Center. The contract provides that these fees shall be disclosed to the Medical Center annually in writing.

Quorum also provides certain 'key personnel' to the Medical Center who are Quorum employees. The Medical Center reimburses Quorum for the costs and expenses (including but not limited to salaries, taxes, fringe benefits, and business expenses) of providing these key personnel as invoiced by Quorum. These reimbursements are in addition to the fixed annual management fee described above. The amount paid to Quorum for administrative compensation and other services was \$379,652 and \$363,162 for 2010 and 2009, respectively.

Litigation. The Medical Center is subject to claims and suits which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings has been adequately provided for in its financial statements, and will not have a material effect on the Medical Center's results of operations or financial position.

NOTE O - CONCENTRATIONS OF CREDIT RISK

The Medical Center is located in Rhea County, Tennessee. The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009, follows.

	<u>2010</u>	<u>2009</u>
Medicare	26%	21%
Medicaid/TennCare	8	11
Blue Cross	10	8
Commercial	12	11
Private pay	<u>44</u>	<u>49</u>
	<u>100%</u>	<u>100%</u>

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE P - SALE OF NURSING HOME BUSINESS

On July 1, 2009, the Medical Center sold the nursing home business, including equipment and the license with the Tennessee Department of Health. The transaction resulted in a net gain on sale of \$1,308,815. The Medical Center transferred \$500,000 of the proceeds to the County. The purchaser is renting space in the original Medical Center until they build a replacement.

NOTE Q - SUBSEQUENT EVENTS

The Medical Center noted no transactions that would provide evidence about material conditions that did not exist at the balance sheet date but arose subsequently, through the date these financial statements were available to be issued, November 22, 2010.

SUPPLEMENTARY INFORMATION

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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SCHEDULE 1 - PATIENT SERVICE REVENUE

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
DAILY PATIENT SERVICES		
Routine care	\$ 2,527,136	\$ 6,737,389
Intensive care unit	<u>170,442</u>	<u>162,297</u>
TOTAL DAILY PATIENT SERVICES	<u>2,697,578</u>	<u>6,899,686</u>
OTHER NURSING SERVICES		
Operating and recovery rooms	1,847,937	1,748,850
Emergency room	6,448,509	6,582,852
Central supply	<u>1,073,147</u>	<u>1,731,501</u>
TOTAL OTHER NURSING SERVICES	<u>9,369,593</u>	<u>10,063,203</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	5,629,574	5,725,167
Electrocardiology	342,766	369,600
Radiology	2,295,295	2,290,806
Cardiac rehab	120,924	107,431
Pharmacy	2,343,494	2,560,098
Anesthesiology	480,415	431,837
Physical therapy	1,729,120	1,580,536
Speech therapy	155,544	349,723
Respiratory therapy	1,848,296	1,053,326
Intravenous therapy	468,280	529,673
Nuclear medicine	2,552,815	2,477,718
Vascular studies	363,179	347,793
CT scans	7,906,501	7,985,677
Bone densitometry	94,581	111,308
Industrial nursing	232,408	213,479
MRI	<u>95,897</u>	<u>117,937</u>
TOTAL OTHER PROFESSIONAL SERVICES	<u>26,659,089</u>	<u>26,252,109</u>
TOTAL PATIENT SERVICE REVENUE	<u>\$38,726,260</u>	<u>\$43,214,998</u>

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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SCHEDULE 2 - PROVISION FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Medicare and Medicaid	\$11,683,705	\$12,369,649
Blue Cross	2,769,790	2,637,304
Employee discounts	28,479	32,526
Other policy discounts	2,634,912	1,988,288
Bad debts	<u>3,985,874</u>	<u>3,686,316</u>
TOTAL CONTRACTUAL ADJUSTMENTS AND BAD DEBTS	<u>\$21,102,760</u>	<u>\$20,714,083</u>

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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SCHEDULE 3 - OTHER OPERATING REVENUE

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Patient histories	\$ 542	\$ 887
Rental revenue	501,493	113,291
Cafeteria revenue	51,233	56,336
Vending revenue	1,691	2,980
Insurance rebate	--	167,517
Miscellaneous revenue	<u>31,543</u>	<u>40,349</u>
TOTAL OTHER OPERATING REVENUE	<u>\$586,502</u>	<u>\$381,360</u>

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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SCHEDULE 4 - SALARIES AND BENEFITS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NURSING SERVICES		
Nursing	\$1,342,480	\$2,628,045
Intensive care unit	147,793	117,370
Operating and recovery rooms	455,865	406,931
Emergency room	1,251,541	1,159,559
Central supply	<u>43,718</u>	<u>29,036</u>
TOTAL NURSING SERVICES	<u>3,241,397</u>	<u>4,340,941</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	505,007	501,152
Radiology	509,623	501,086
Cardiac rehab	72,627	67,644
Pharmacy	192,709	176,709
Respiratory therapy	316,253	312,082
Nuclear medicine	286,388	276,655
CT scans	58,229	55,011
Clinic	50,938	47,909
Industrial nursing	182,992	158,895
MRI	<u>59,322</u>	<u>60,459</u>
TOTAL OTHER PROFESSIONAL SERVICES	<u>2,234,088</u>	<u>2,157,602</u>
GENERAL SERVICES		
Dietary	190,075	430,748
Building operation and maintenance	108,431	153,887
Housekeeping	193,118	285,643
Laundry	--	15,489
Medical records	199,072	220,068
Materials management	25,080	40,840
Activities	<u>--</u>	<u>83,146</u>
TOTAL GENERAL SERVICES	<u>715,776</u>	<u>1,229,821</u>
ADMINISTRATIVE AND FISCAL SERVICES		
Administrative and business office	<u>3,110,016</u>	<u>3,565,162</u>
TOTAL SALARIES AND BENEFITS	<u>\$9,301,277</u>	<u>\$11,293,526</u>

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

SCHEDULE 5 - MEDICAL SUPPLIES AND DRUGS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NURSING SERVICES		
Nursing	\$ 35,824	\$ 56,767
Intensive care unit	761	113
Operating and recovery rooms	106,363	109,592
Emergency room	56,609	50,751
Central supply	<u>390,251</u>	<u>536,769</u>
TOTAL NURSING SERVICES	<u>589,808</u>	<u>753,992</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	376,954	367,966
Radiology	20,059	10,191
Cardiac rehab	1,242	2,475
Pharmacy	435,601	458,674
Physical therapy	10,875	8,238
Speech therapy	851	1,145
Respiratory therapy	36,963	43,038
MRI	11,766	14,384
Intravenous therapy	21,718	21,668
Nuclear medicine	88,571	79,902
CT scans	57,739	64,954
Clinic	<u>843</u>	<u>65</u>
TOTAL OTHER PROFESSIONAL SERVICES	<u>1,063,182</u>	<u>1,072,700</u>
TOTAL MEDICAL SUPPLIES AND DRUGS	<u>\$1,652,990</u>	<u>\$1,826,692</u>

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

SCHEDULE 6 - OTHER SUPPLIES

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NURSING SERVICES		
Nursing	\$ 10,985	\$ 5,950
Operating and recovery rooms	2,235	3,143
Emergency room	9,116	12,520
Central supply	<u>507</u>	<u>656</u>
TOTAL NURSING SERVICES	<u>22,843</u>	<u>22,269</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	1,619	4,186
Radiology	4,135	3,904
Cardiac rehab	580	984
Pharmacy	806	2,419
Physical therapy	2,731	2,550
Respiratory therapy	221	763
Nuclear medicine	1,001	742
CT scans	8,702	7,190
Clinic	774	1,322
Industrial nursing	<u>9,618</u>	<u>11,438</u>
TOTAL OTHER PROFESSIONAL SERVICES	<u>30,187</u>	<u>35,498</u>
GENERAL SERVICES		
Dietary	140,534	397,381
Building operation and maintenance	46,080	40,878
Housekeeping	47,112	70,103
Laundry	656	1,756
Medical records	2,986	3,027
Materials management	1,511	--
Professional building	250	2,099
Activities	37	2,798
Gift shop	<u>12,764</u>	<u>28,713</u>
TOTAL GENERAL SERVICES	<u>251,930</u>	<u>546,755</u>
ADMINISTRATIVE AND FISCAL SERVICES		
Administrative and business office	<u>71,791</u>	<u>63,241</u>
TOTAL OTHER SUPPLIES	<u>\$376,751</u>	<u>\$667,763</u>

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

SCHEDULE 7 - OTHER EXPENSES

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NURSING SERVICES		
Nursing	\$ 126,103	\$ 589,628
Intensive care unit	1,154	3,269
Operating and recovery rooms	73,668	86,569
Emergency room	98,753	80,933
Central supply	<u>1,226</u>	<u>173</u>
TOTAL NURSING SERVICES	<u>300,904</u>	<u>760,572</u>
OTHER PROFESSIONAL SERVICES		
Laboratory	173,122	173,348
Radiology	105,937	115,064
Cardiac rehab	9,717	9,726
Pharmacy	31,843	56,025
Anesthesiology	85,888	87,809
Physical therapy	613,455	573,878
Speech therapy	88,422	111,600
Respiratory therapy	11,206	19,886
Nuclear medicine	162,052	136,131
CT scans	98,146	65,946
Clinic	60,486	91,772
Bone densitometry	5,431	5,467
Industrial nursing	<u>39,205</u>	<u>28,880</u>
TOTAL OTHER PROFESSIONAL SERVICES	<u>1,484,910</u>	<u>1,475,532</u>
GENERAL SERVICES		
Dietary	15,004	32,187
Building operation and maintenance	592,487	941,646
Housekeeping	10,863	9,322
Laundry	121,349	106,615
Medical records	74,605	65,562
Materials management	248	--
Professional building	31,383	27,686
Activities	20	4,510
Gift shop	<u>98</u>	<u>--</u>
TOTAL GENERAL SERVICES	<u>846,057</u>	<u>1,187,528</u>
ADMINISTRATIVE AND FISCAL SERVICES		
Administrative and business office	<u>1,647,877</u>	<u>1,778,479</u>
TOTAL OTHER EXPENSES	<u>\$4,279,748</u>	<u>\$5,202,111</u>

**BURK PEARLMAN
NEBBEN & HUGGINS, PLLC**
CERTIFIED PUBLIC ACCOUNTANTS

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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*

To the Board of Trustees of
Rhea Medical Center (a component unit of Rhea County, Tennessee)

We have audited the financial statements of Rhea Medical Center (a component unit of Rhea County, Tennessee) (the Medical Center) as of and for the year ended June 30, 2010 and have issued our report thereon dated November 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rhea Medical Center's (a component unit of Rhea County, Tennessee) 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 of the Board of Trustees, management, the State of Tennessee, and the Rhea County Government and is not intended and should not be used by anyone other than these specified parties.

Burk, Pearlman, Nollen & Huggins, PLLC

Chattanooga, Tennessee
November 22, 2010

RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Finding Control Number and Status

2009-1 Previously reported correction action plan implemented. The finding is closed.

2009-2 Previously reported corrective action plan implemented. The finding is closed.