HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER

INDEPENDENT AUDITORS' REPORT, FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
JUNE 30, 2010

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Certified Public Accountants

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Independent Auditors' Report on Financial Statements

Chairman and Board of Directors
Hardin Medical Center
Savannah, Tennessee

We have audited the accompanying consolidated financial statements of Hardin Medical Center (a component unit of Hardin County, Tennessee), and HMC Health and Rehabilitation Center (a fund of Hardin Medical Center), as of and for the year ended June 30, 2010, as listed in the table of contents. These consolidated financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only Hardin Medical Center and HMC Health and Rehabilitation Center and do not purport to, and do not, present fairly the financial position of Hardin County, Tennessee, as of June 30, 2010, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hardin Medical Center and HMC Health and Rehabilitation Center as of June 30, 2010, and the changes in financial position and cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2010 on our consideration of Hardin Medical Center's and HMC Health and Rehabilitation Center's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting and on the compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

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

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

Williams, Jenold, Godwin & Nuckols, PLLC

December 17, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the financial performance of Hardin Medical Center and HMC Health and Rehabilitation Center provides an overview of both the Hospital's and Health and Rehabilitation Center's financial activities for the year ended June 30, 2010.

FINANCIAL HIGHLIGHTS

Condensed information follows:

	2010	2009	Increase (Decrease) $	Increase (Decrease) %
Total assets	$ 28,511,811	$ 27,413,213	$ 1,098,598	4.01%
Current liabilities	3,549,486	2,809,144	740,342	26.35%
Long-term liabilities	6,976,536	7,419,304	(442,768)	-5.97%
Total net assets, invested in capital assets, net of related debt	6,242,750	5,615,960	626,790	11.16%
Total net assets, restricted	-	-	-	n/a
Total net assets, unrestricted	11,743,039	11,568,805	174,234	1.51%
Net patient service revenue	28,522,682	29,787,170	(1,264,488)	-4.25%
Total revenues	29,857,627	30,260,886	(403,259)	-1.33%
Operating expenses	28,974,218	29,570,896	(596,678)	-2.02%
Total expenses	29,056,603	29,731,066	(674,463)	-2.27%
Change in net assets	801,024	529,820	271,204	n/a
Ending net assets	17,985,789	17,184,765	801,024	4.66%

USING THE FINANCIAL REPORT

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

During the year, $1,740,778 of fixed assets were purchased. Accumulated depreciation increased $1,517,496.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

Hardin Medical Center (including the Health and Rehabilitation Center) had a net operating loss of $195,801 and generated $79 million in gross operating revenue; i.e., before contractual adjustments. The breakdown for operating revenue consists of 31% inpatient and 69% outpatient.

Hardin Medical Center is dependent on governmental programs. Medicare and TennCare make up approximately 70% of the Hospital's payer mix, commercial insurance equals 23% and self pay accounts equal 7%.

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

For fiscal year beginning July 1, 2010 the Hospital and Health and Rehabilitation Center projected increases of 6.6% in net patient service revenue, 9.3% in salaries, and 7.1% in other expenses. This includes increases caused by new physicians employed, wound care center, Trane Energy Saving Program and a large gain in 2010 from the sale of a majority of Home Health.

CONTACTING THE HARDIN MEDICAL CENTER MANAGEMENT

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

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER
CONSOLIDATED STATEMENT OF NET ASSETS
JUNE 30, 2010

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 4,083,600
Investments - certificates of deposit	3,380,329
Accounts receivable, net of allowance for uncollectible accounts of $6,526,038	4,525,857
Other receivables	78,486
Due from intermediaries	249,182
Inventories	1,281,228
Prepaid expenses	9,496
TOTAL CURRENT ASSETS	13,608,178
RESTRICTED ASSETS	
Cash and cash equivalents	-
Investments - certificates of deposit	462,917
TOTAL RESTRICTED ASSETS	462,917
PLANT IN SERVICE	32,043,968
Less: accumulated depreciation	(18,362,914)
NET PLANT IN SERVICE	13,681,054
OTHER ASSETS	
Physician guarantees	662,372
Education assistance loans	87,589
Trust fund accounts	7,741
Utility deposits	1,960
TOTAL OTHER ASSETS	759,662
TOTAL ASSETS	$ 28,511,811

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 1,183,123
Accrued payroll and payroll taxes	672,893
Accrued vacation and holiday	428,207
Other accrued expenses	332,837
Deferred revenue	462,917
Trust funds	7,741
Current portion of long-term obligations	461,768
TOTAL CURRENT LIABILITIES	3,549,486
LONG-TERM LIABILITIES, net of current portion	
Note payable	167,500
Capital lease obligation	398,036
Bonds payable	6,411,000
TOTAL LONG-TERM LIABILITIES	6,976,536
TOTAL LIABILITIES	10,526,022
NET ASSETS	
Invested in capital assets, net of related debt	6,242,750
Unrestricted	11,743,039
TOTAL NET ASSETS	17,985,789
TOTAL LIABILITIES AND NET ASSETS	$ 28,511,811

The accompanying notes are an integral part of these statements.

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER
CONSOLIDATED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2010

NET PATIENT SERVICE REVENUE	$ 28,522,682
OTHER OPERATING INCOME	255,735
TOTAL OPERATING INCOME	28,778,417
OPERATING EXPENSES	
Salaries	12,908,382
Benefits	3,547,524
Purchased services	2,058,625
Consultants	99,299
Insurance	261,970
Supplies	5,460,625
Utilities	340,957
Communication	16,200
Repairs and maintenance	1,486,529
Travel and education	127,367
Dues and subscriptions	86,148
Equipment rental	270,591
Physician recruitment	527,922
State license fee	162,425
Other expense	102,158
Depreciation and amortization	1,517,496
TOTAL OPERATING EXPENSES	28,974,218
NET OPERATING INCOME	(195,801)
OTHER REVENUE (EXPENSE)	
Interest income	188,732
Interest expense	(82,385)
Operating grant	62,078
Sale of home health	727,925
Ambulance subsidy	100,475
NET OTHER REVENUE	996,825
INCREASE IN NET ASSETS	801,024
NET ASSETS - BEGINNING	17,184,765
NET ASSETS - ENDING	$ 17,985,789

The accompanying notes are an integral part of these statements.

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from patient services	$ 29,807,562
Payments to suppliers	(14,000,110)
Payments to employees	(12,664,677)
Receipts from other operating activities	620,247
CASH PROVIDED BY OPERATING ACTIVITIES	3,763,022
CASH FLOWS FROM INVESTING ACTIVITIES	
Investments redeemed	(905,468)
Interest income	188,732
CASH PROVIDED BY INVESTING ACTIVITIES	(716,736)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Grant received	-
Ambulance subsidy	100,475
CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	100,475
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(589,248)
Interest paid	(82,385)
Sale of home health	733,666
Purchases of fixed assets	(1,560,778)
CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,498,745)
NET INCREASE IN CASH	1,648,016
CASH AND CASH EQUIVALENTS - BEGINNING	2,435,584
CASH AND CASH EQUIVALENTS - ENDING	$ 4,083,600

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ (195,801)
Adjustments to derive cash effect:	
Depreciation and amortization	1,517,496
Accounts receivable	876,851
Other receivables	53,486
Utility deposits	(110)
Due from intermediaries	408,029
Inventory	74,700
Prepaid insurance	28,752
Physician guarantees	227,964
Accounts payable	176,898
Accrued payroll and vacation	243,705
Deferred revenue	205,925
Patient trust fund liabilities	(8)
Other accrued expenses	145,135
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 3,763,022

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

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
YEAR ENDED JUNE 30, 2010

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Acquisitions of fixed assets	$ 1,740,778
Less: financed with capital lease obligations	(180,000)
Net cash paid for equipment	$ 1,560,778

The accompanying notes are an integral part of these statements.

NOTE 1 - GENERAL INFORMATION

General

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

Reporting Entity

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GASB conformity

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

Measurement focus and basis of accounting

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

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

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

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

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

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

Proprietary Funds

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

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

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

Operating and nonoperating income

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

Principles of consolidation

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

NOTE 3 - DUE FROM/TO THIRD-PARTY PAYERS

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

NOTE 4 - ECONOMIC DEPENDENCY

HMC

Approximately 50% of total charges for the year were made to the Medicare program, and 38% of the net accounts receivable balance as of June 30 was due from the Medicare program.

HMCHRC

Approximately 60% of net patient service revenue was derived from the State of Tennessee under the Tenncare and Medicaid programs. As a result, a portion of charges for patients' care was paid for by the State of Tennessee. Approximately 61% of the net accounts receivable balance as of June 30 was due from these programs.

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

NOTE 5 - PHYSICIAN GUARANTEES

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

NOTE 6 - PENSION PLAN

(Defined benefit plan)

Plan description

Employees of HMC and HMCHRC are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system on or after July 1, 1979 become vested after 5 years of service and members joining prior to July 1, 1979 were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Hospital and Health and Rehabilitation Center participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

Effective July 1, 2008, HMC closed the plan to new participants. Those employees who were employed by HMC prior to July 1, 2008 are still eligible to accrue salary and service credit in TCRS. HMC is responsible to continue to fund the retirement cost of the plan.

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

Funding policy

For employees hired before July 1, 1986, HMC has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to

5.0% of annual covered payroll. Employees hired on July 1, 1986 and after are required to contribute 5.0% of earnable compensation.

HMC is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2010 was 10.59% of annual covered payroll. The contribution requirement of plan members is set by State statute. Contribution requirements for HMC are established and may be amended by the TCRS Board of Trustees.

Annual pension cost

For the year ended June 30, 2010, HMC's annual pension cost of $518,260 to TCRS was equal to its required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. HMC's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007, was 8 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	$ 518,260	100.00	$ -0-
6/30/09	$ 560,400	100.00	$ -0-
6/30/08	$ 1,036,176	100.00	$ -0-

Funded Status and Funding Progress

As of July 1, 2009, the most recent actuarial valuation date, the plan was 88.19% funded. The actuarial accrued liability for benefits was $25.87 million, and the actuarial value of assets was $22.82 million, resulting in unfunded actuarial accrued liability (UAAL) of $3.06 million. The covered payroll (annual payroll of active employees covered by the plan) was $4.78 million, and the ratio of the UAAL to the covered payroll was 63.88%.

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

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

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/09	$22,816	$25,871	$3,056	88.19%	$4,783	63.88%
7/01/07	$22,524	$26,378	$3,854	85.39%	$9,564	40.30%

(Defined contribution)

In July 2008 HMC began providing a 403(b) plan which covers full-time employees who choose not to participate in the defined benefit plan. The employer contributes 3% of compensation plus it will match half of each employee's contribution (up to an additional 3%). The total retirement plan expense associated with this plan for the year was $359,009.

NOTE 7 - CHARITY CARE

HMC maintains records to identify and monitor the level of charity care it provides for patients. The records include the amount of charges foregone for services and supplies furnished under its charity care policy. HMC provided charity care services, measured in terms of established patient billing rates, of approximately $1,003,895.

NOTE 8 - DEPOSITS AND INVESTMENTS

HMC and HMCHRC maintain checking accounts and certificates of deposit with local banks. Their investment policies are governed by State statute. Included in permissible investments are direct obligations of the U. S. Government and agency securities, certificates of deposit and savings accounts. HMC and HMCHRC have no policy that further limits allowable investments. At June 30, 2010, investments consisted entirely of certificates of deposit. Investments are carried at cost which approximates fair value.

For deposits, custodial credit risk is the risk that, in the event of a bank failure, deposits may not be returned. HMC and HMCHRC do not have a policy regarding custodial credit risk for deposits. Collateral is required for demand deposits and certificates of deposit at 105% of all amounts not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State of Tennessee and its subdivisions. At June 30, 2010 the entire amount of HMC's bank balances of $8,000,091, was completely insured and or collateralized.

NOTE 9 – ACCOUNTS PAYABLE

Accounts payable consists entirely of amounts payable to vendors.

NOTE 10 - LONG-TERM DEBT

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

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

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

In October 2009, HMC financed the purchase of equipment with a capital lease obligation that requires monthly principal payments of $20,000 through July 2010.

Maturities of all long-term debt are as follows:

	Principal			
	Bonds	Note	Capital Lease	Interest
2011	$ 223,000	$ 30,000	$208,768	$ 46,820
2012	231,000	30,000	195,921	38,684
2013	238,000	30,000	202,115	31,474
2014	246,000	30,000	-	26,145
2015	255,000	30,000	-	25,062
2016 – 2020	1,407,000	47,500	-	107,729
2021 – 2025	1,658,000	-	-	74,638
2026 – 2030	1,956,000	-	-	35,622
2031	420,000	-	-	1,848

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

	Balance at beginning of year	Increases	Decreases	Balance at end of year	Due within one year
Bonds	$ 6,851,000	$ -	$ 217,000	$ 6,634,000	$ 223,000
Notes	227,500	-	30,000	197,500	30,000
Capital Leases	769,052	180,000	342,248	606,804	208,768
Total	$ 7,847,552	$ 180,000	$ 589,248	$ 7,438,304	$ 461,768

NOTE 11 – NET ASSETS

Net assets invested in capital assets, net of related debt, is calculated by taking the net plant in service of $13,681,054 less applicable debt of $7,438,304.

NOTE 12 - NET PATIENT SERVICE REVENUE

HMC and HMCHRC have agreements with third-party payers that provide for payments at amounts different from their established rates. Net operating revenues are net of contractual adjustments and policy discounts of $50,283,847 (HMC) and $522,406 (HMCHRC). A summary of the payment arrangements with major third-party payers follows:

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

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

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

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

<u>Other (HMC)</u>
HMC has also entered into payment agreements with other commercial insurance carriers. The basis for payment to the Hospital under these agreements is essentially the same as the methodology for Blue Cross subscribers.

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

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

NOTE 13 – AMBULANCE SERVICE

The County paid the construction cost of a building to house ambulance facilities and has also purchased ambulances and related equipment but HMC is responsible for operating the ambulance service. Expenditures by the County since the Hospital began operating the ambulance service in 1997 amounts to $1,438,963. This amount is not reflected in property and equipment in the accompanying financial statements. In addition, the County provides an annual subsidy ($100,475 in 2010) to defray costs incurred in operating the ambulance service. This annual allocation is in addition to the cumulative expenditures mentioned above.

NOTE 14 - RISK MANAGEMENT

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

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

Balance at beginning of year	Incurred claims	Claims payments	Employee deductions	Balance at end of year
$ 132,837	$ 1,961,168	$(1,421,988)	$(565,070)	$ 106,947

NOTE 15 – RESTRICTED ASSETS / DEFERRED REVENUE

HMC received a contribution that is restricted by the donor for specific construction purposes. If the anticipated construction does not occur, the contribution must be returned to the donor. The money was placed in an interest-bearing account. Accordingly, $462,917 represents the contribution plus interest earned on the balance.

NOTE 16 – OPERATING LEASES

HMC leased surgery cataract equipment under operating leases during the year for a total expense of $270,591.

NOTE 17 – CAPITAL ASSETS

Capital asset activity for the year follows:

	Balance Beginning	Increases	Decreases	Balance Ending
Capital assets not being depreciated:				
Land	$ 224,500	$ -	$ -	$ 224,500
Construction in progress	93,403	1,019,255	18,922	1,093,736
Total capital assets not being depreciated	317,903	1,019,255	18,922	1,318,236
Capital assets being depreciated:				
Land improvements	317,090	-	-	317,090
Buildings	14,156,329	12,000	-	14,168,329
Equipment	12,575,339	506,899	17,416	13,064,822
Furniture and fixtures	193,104	41,546	-	234,650
Assets under capital lease	2,673,852	180,000	-	2,853,852
Intangible costs	86,989	-	-	86,989
Total capital assets being depreciated	30,002,703	740,445	17,416	30,725,732
Less accumulated depreciation for:				
Land improvements	266,317	15,722	-	282,039
Buildings	4,670,619	359,849	-	5,030,468
Equipment	9,550,937	909,477	11,676	10,448,738
Furniture and fixtures	144,510	13,264	-	157,774
Assets under capital lease	2,137,722	219,184	-	2,356,906
Intangible costs	86,989	-	-	86,989
Total accumulated depreciation	16,857,094	1,517,496	11,676	18,362,914
Total capital assets being depreciated, net	13,145,609	(777,051)	5,740	12,362,818
Total capital assets, net	$ 13,463,512	$ 242,204	$ 24,662	$ 13,681,054

Depreciation expense of $1,517,496 (including $219,184 on assets under capital leases) was recorded by HMC and HMCHRC. Fully depreciated assets at June 30, 2010 amounted to $10,651,348. Related interest cost of $155,317 was capitalized in prior years.

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

Pension Plan

Schedule of funding progress (dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/01/09	$22,816	$25,871	$3,056	88.19%	$4,783	63.88%
7/01/07	$22,524	$26,378	$3,854	85.39%	$9,564	40.30%

The GASB requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method went into effect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER

CONSOLIDATING STATEMENT OF NET ASSETS

JUNE 30, 2010

	Medical Center	Nursing Home	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 3,887,114	$ 196,486	$ -	$ 4,083,600
Investments - certificates of deposit	3,380,329	-	-	3,380,329
Accounts receivable, net of allowance for uncollectible accounts of $6,526,038	4,140,143	385,714	-	4,525,857
Other receivables	78,486	-	-	78,486
Due from intermediaries	249,182	-	-	249,182
Inventories	1,279,562	1,666	-	1,281,228
Prepaid expenses	9,496	-	-	9,496
TOTAL CURRENT ASSETS	13,024,312	583,866	-	13,608,178
RESTRICTED ASSETS				
Cash and cash equivalents	-	-	-	-
Investments - certificates of deposit	462,917	-	-	462,917
TOTAL RESTRICTED ASSETS	462,917	-	-	462,917
PLANT IN SERVICE	30,084,077	1,959,891	-	32,043,968
Less: accumulated depreciation	(16,935,495)	(1,427,419)	-	(18,362,914)
NET PLANT IN SERVICE	13,148,582	532,472	-	13,681,054
OTHER ASSETS				
Due from Hardin County Nursing Home	2,934,859	-	(2,934,859)	-
Physician guarantees	662,372	-	-	662,372
Education assistance loans	87,589	-	-	87,589
Trust fund accounts	-	7,741	-	7,741
Utility deposits	1,960	-	-	1,960
TOTAL OTHER ASSETS	3,686,780	7,741	(2,934,859)	759,662
TOTAL ASSETS	$ 30,322,591	$ 1,124,079	$ (2,934,859)	$ 28,511,811
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$ 1,134,734	$ 48,389	$ -	$ 1,183,123
Accrued payroll and payroll taxes	614,246	58,647	-	672,893
Accrued vacation and holiday	428,207	-	-	428,207
Other accrued expenses	332,837	-	-	332,837
Deferred revenue	462,917	-	-	462,917
Trust funds	-	7,741	-	7,741
Current portion of long-term obligations	461,768	-	-	461,768
TOTAL CURRENT LIABILITIES	3,434,709	114,777	-	3,549,486
LONG-TERM LIABILITIES, net of current portion				
Due to Hardin Medical Center	-	2,934,859	(2,934,859)	-
Note payable - TVEC	167,500	-	-	167,500
Capital lease obligation	398,036	-	-	398,036
Bonds payable	6,411,000	-	-	6,411,000
TOTAL LONG-TERM LIABILITIES	6,976,536	2,934,859	(2,934,859)	6,976,536
TOTAL LIABILITIES	10,411,245	3,049,636	(2,934,859)	10,526,022
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	5,710,278	532,472	-	6,242,750
Unrestricted (Deficit)	14,201,068	(2,458,029)	-	11,743,039
TOTAL NET ASSETS (DEFICIT)	19,911,346	(1,925,557)	-	17,985,789
TOTAL LIABILITIES AND NET ASSETS	$ 30,322,591	$ 1,124,079	$ (2,934,859)	$ 28,511,811

The accompanying notes are an integral part of these statements.

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER

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

YEAR ENDED JUNE 30, 2010

	Medical Center	Nursing Home	Eliminations	Total
NET PATIENT SERVICE REVENUE	$ 23,842,897	$ 4,679,785	$ -	$ 28,522,682
OTHER OPERATING INCOME	414,322	-	(158,587)	255,735
TOTAL OPERATING INCOME	24,257,219	4,679,785	(158,587)	28,778,417
OPERATING EXPENSES				
Salaries	10,644,929	2,263,453	-	12,908,382
Benefits	3,109,157	438,367	-	3,547,524
Purchased services	1,704,103	354,522	-	2,058,625
Consultants	-	257,886	(158,587)	99,299
Insurance	145,747	116,223	-	261,970
Supplies	4,488,864	971,761	-	5,460,625
Utilities	174,324	166,633	-	340,957
Communication	-	16,200	-	16,200
Repairs and maintenance	1,400,286	86,243	-	1,486,529
Travel and education	113,489	13,878	-	127,367
Dues and subscriptions	86,148	-	-	86,148
Equipment rental	270,591	-	-	270,591
Physician recruitment	527,922	-	-	527,922
State license fee	-	162,425	-	162,425
Other expense	97,121	5,037	-	102,158
Depreciation and amortization	1,448,504	68,992	-	1,517,496
TOTAL OPERATING EXPENSES	24,211,185	4,921,620	(158,587)	28,974,218
NET OPERATING INCOME (EXPENSE)	46,034	(241,835)	-	(195,801)
OTHER REVENUE (EXPENSE)				
Interest income	187,344	1,388	-	188,732
Interest expense	(82,385)	-	-	(82,385)
Ambulance subsidy	100,475	-	-	100,475
Sale of home health	727,925	-	-	727,925
Operating grant	-	62,078	-	62,078
NET OTHER REVENUE	933,359	63,466	-	996,825
INCREASE (DECREASE) IN NET ASSETS	979,393	(178,369)	-	801,024
NET ASSETS (DEFICIT) - BEGINNING	18,931,953	(1,747,188)	-	17,184,765
NET ASSETS (DEFICIT) - ENDING	$ 19,911,346	$ (1,925,557)	$ -	$ 17,985,789

The accompanying notes are an integral part of these statements.

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER

CONSOLIDATING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010

	Medical Center	Nursing Home	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from patient services	$ 25,174,500	$ 4,633,062	$ -	$ 29,807,562
Payments to suppliers	(11,410,008)	(2,590,102)	-	(14,000,110)
Payments to employees	(10,412,216)	(2,252,461)	-	(12,664,677)
Receipts from other operating activities	620,247	-	-	620,247
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	3,972,523	(209,501)	-	3,763,022
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments purchased	(905,468)	-	-	(905,468)
Interest income	187,344	1,388	-	188,732
CASH PROVIDED BY INVESTING ACTIVITIES	(718,124)	1,388	-	(716,736)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Net advances to Nursing Home	(104,603)	-	104,603	-
Net receipts from Medical Center	-	104,603	(104,603)	-
Grant received	-	-	-	-
Ambulance subsidy	100,475	-	-	100,475
CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	(4,128)	104,603	-	100,475
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal paid on long-term debt	(589,248)	-	-	(589,248)
Interest paid	(82,385)	-	-	(82,385)
Proceeds from sale of home health	733,666	-	-	733,666
Purchases of fixed assets	(1,448,888)	(111,890)	-	(1,560,778)
CASH PROVIDED (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(1,386,855)	(111,890)	-	(1,498,745)
NET INCREASE IN CASH	1,863,416	(215,400)	-	1,648,016
CASH AND CASH EQUIVALENTS - BEGINNING	2,023,698	411,886	-	2,435,584
CASH AND CASH EQUIVALENTS - ENDING	$ 3,887,114	$ 196,486	$ -	$ 4,083,600

	Medical Center	Nursing Home	Eliminations	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	$ 46,034	$ (241,835)	$ -	$ (195,801)
Adjustments to derive cash effect:				
Depreciation and amortization	1,448,504	68,992	-	1,517,496
Accounts receivable	923,574	(46,723)	-	876,851
Other receivables	53,486	-	-	53,486
Utility deposits	(110)	-	-	(110)
Due from intermediaries	408,029	-	-	408,029
Inventory	71,986	2,714	-	74,700
Prepaid insurance	28,752	-	-	28,752
Physician guarantees	227,964	-	-	227,964
Accounts payable	180,531	(3,633)	-	176,898
Accrued payroll and vacation	232,713	10,992	-	243,705
Deferred revenue	205,925	-	-	205,925
Patient trust fund liabilities	-	(8)	-	(8)
Other accrued expenses	145,135	-	-	145,135
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 3,972,523	$ (209,501)	$ -	$ 3,763,022

The accompanying notes are an integral part of these statements.

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER

CONSOLIDATING STATEMENT OF CASH FLOWS (continued)

YEAR ENDED JUNE 30, 2010

	Medical Center	Nursing Home	Eliminations	Total
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES				
Acquisitions of fixed assets	$ 1,628,888	$ 111,890	$ -	$ 1,740,778
Less: financed with capital lease obligations	(180,000)	-	-	(180,000)
Net cash paid for equipment	$ 1,448,888	$ 111,890	$ -	$ 1,560,778

The accompanying notes are an integral part of these statements.

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER

SCHEDULE OF PLANT IN SERVICE
(Hardin Medical Center)

YEAR ENDED JUNE 30, 2010

	Fixed Assets				Accumulated Depreciation				Capital Invested in Plant
	Beginning Balance	Additions	Retirements	Ending Balance	Beginning Balance	Additions	Retirements	Ending Balance	Ending
Land	$ 224,500	$ -	$ -	$ 224,500	$ -	$ -	$ -	$ -	$ 224,500
Land improvements	317,090	-	-	317,090	266,317	15,722	-	282,039	35,051
Buildings and improvements	13,326,662	12,000	-	13,338,662	4,042,588	349,210	-	4,391,798	8,946,864
Fixed equipment	1,914,240	-	-	1,914,240	1,701,279	71,648	-	1,772,927	141,313
Major movable equipment	7,354,228	458,303	17,416	7,795,115	5,498,614	648,822	11,676	6,135,760	1,659,355
Equipment - 2003 renovation	1,449,542	-	-	1,449,542	894,198	134,733	-	1,028,931	420,611
Durable medical equipment	21,988	-	-	21,988	21,428	58	-	21,486	502
Critical care equipment	884,595	-	-	884,595	884,595	-	-	884,595	-
Minor equipment	119,726	-	-	119,726	59,475	9,127	-	68,602	51,124
Automobiles	15,713	-	-	15,713	15,713	-	-	15,713	-
Assets under capital lease	2,673,851	180,000	-	2,853,851	2,027,471	219,184	-	2,246,655	607,196
Intangible costs	86,989	-	-	86,989	86,989	-	-	86,989	-
Construction in progress	83,481	987,585	9,000	1,062,066	-	-	-	-	1,062,066
TOTALS	$ 28,472,605	$ 1,637,888	$ 26,416	$ 30,084,077	$ 15,498,667	$ 1,448,504	$ 11,676	$ 16,935,495	$ 13,148,582

The accompanying notes are an integral part of these statements.

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER

SCHEDULE OF PLANT IN SERVICE
(HMC Health and Rehabilitation Center)

YEAR ENDED JUNE 30, 2010

	Fixed assets				Accumulated depreciation				Capital invested in plant -
	Beginning Balance	Additions	Retirements	Ending Balance	Beginning Balance	Additions	Retirements	Ending Balance	Ending
Building	$ 829,667	$ -	$ -	$ 829,667	$ 628,031	$ 10,639	$ -	$ 638,670	$ 190,997
Equipment	807,288	48,596	-	855,884	585,886	45,089	-	630,975	224,909
Furniture and fixtures	201,124	41,545	-	242,669	144,510	13,264	-	157,774	84,895
Construction in process	9,922	31,671	9,922	31,671	-	-	-	-	31,671
	$ 1,848,001	$ 121,812	$ 9,922	$ 1,959,891	$ 1,358,427	$ 68,992	$ -	$ 1,427,419	$ 532,472

The accompanying notes are an integral part of these statements.

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER

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

JUNE 30, 2010

Year Ending June 30	Bonds payable		Note payable		Capital lease obligation		2009 Capital lease obligation	
	Principal	* Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 223,000	$ 29,190	$ 30,000	$ -	$ 188,768	$ 17,630	$ 20,000	$ -
2012	231,000	28,208	30,000	-	195,921	10,476	-	-
2013	238,000	27,192	30,000	-	202,115	4,282	-	-
2014	246,000	26,145	30,000	-	-	-	-	-
2015	255,000	25,062	30,000	-	-	-	-	-
2016	263,000	23,940	30,000	-	-	-	-	-
2017	272,000	22,783	17,500	-	-	-	-	-
2018	281,000	21,586	-	-	-	-	-	-
2019	291,000	20,350	-	-	-	-	-	-
2020	300,000	19,070	-	-	-	-	-	-
2021	310,000	17,750	-	-	-	-	-	-
2022	321,000	16,386	-	-	-	-	-	-
2023	331,000	14,973	-	-	-	-	-	-
2024	342,000	13,517	-	-	-	-	-	-
2025	354,000	12,012	-	-	-	-	-	-
2026	366,000	10,454	-	-	-	-	-	-
2027	378,000	8,844	-	-	-	-	-	-
2028	391,000	7,181	-	-	-	-	-	-
2029	404,000	5,460	-	-	-	-	-	-
2030	417,000	3,683	-	-	-	-	-	-
2031	420,000	1,848	-	-	-	-	-	-
	$ 6,634,000	$ 355,634	$ 197,500	$ -	$ 586,804	$ 32,388	$ 20,000	$ -

* using the rate in effect at June 30, 2010 (0.44%)

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER

SCHEDULE OF CHANGES IN LONG-TERM DEBT

YEAR ENDED JUNE 30, 2010

	Beginning Balance	Advances	Principal Repayments	Ending Balance
Bonds payable	$ 6,851,000	$ -	$ 217,000	$ 6,634,000
Note payable	227,500	-	30,000	197,500
Capital lease obligation	769,052	180,000	342,248	606,804
Totals	$ 7,847,552	$ 180,000	$ 589,248	$ 7,438,304

HARDIN MEDICAL CENTER AND HMC HEALTH AND REHABILITATION CENTER

SCHEDULE OF INVESTMENTS

JUNE 30, 2010

Description	Certificate number	Interest rate		Principal
Certificate of deposit	56808	2.75%	$	1,566,259
Certificate of deposit	58581	2.25%		1,001,055
Certificate of deposit	56828	2.75%		200,000
Certificate of deposit	30000002	0.50%		1,075,932
			$	3,843,246

The accompanying notes are an integral part of these statements.

HMC HEALTH AND REHABILITATION CENTER
SCHEDULE OF STATE FINANCIAL ASSISTANCE
YEAR ENDED JUNE 30, 2010

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

Note 1. Basis of Presentation

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

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

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WILLIAMS, JERROLDS, GODWIN & NICHOLS, PLLC
Certified Public Accountants

408 Main Street, Savannah, Tennessee 38372 Phone (731) 925-6547 Fax (731) 925-9524

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

Chairman and Board of Directors
Hardin Medical Center
Savannah, Tennessee

We have audited the financial statements of Hardin Medical Center (a component unit of Hardin County, Tennessee) and HMC Health and Rehabilitation Center, (a fund of Hardin Medical Center), collectively referred to as the Medical Center, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

DISPOSITION OF PRIOR FINDINGS

2009-01 FINANCIAL STATEMENTS MATERIALLY MISSTATED - corrected.

2009-02 CASH COLLATERAL – corrected.

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

Williams, Jerrolds, Gordon & Nubel, PLLC

December 17, 2010