

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

**Dayton, Tennessee**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**Years Ended June 30, 2011 and 2010**

**JOHNSON, HICKEY & MURCHISON, P.C.**  
Certified Public Accountants  
Chattanooga, Tennessee

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**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, 2011 and 2010. Please read it in conjunction with the Medical Center's financial statements, which begin on page 3.

**Financial Highlights**

- In October the Medical Center received \$1,711,226 from the Bureau of TennCare. The purpose of these funds was to assist with the costs of providing uncompensated care.
- The Medical Center's net assets increased in each of the past two years with a \$3,033,542 or 17% increase in 2011 and a \$1,106,725 or 7% increase in 2010. The Medical Center reported operating income in both 2011 and 2010. Operating revenues increased 14% over 2010, while operating expenses increased at a rate of 2% in 2011.

**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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS**

**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 3 and 4. The Medical Center's net assets increased in each of the past two years with a \$3,033,542 or 17% increase in 2011 and a \$1,106,725 or 7% increase in 2010. See Exhibit One for an illustration.

*Exhibit One: Assets, Liabilities, and Net Assets*

	<u>2011</u>	<u>2010</u>
Assets:		
Current assets	\$16,843,706	\$13,803,489
Capital assets, net,	27,681,120	28,889,766
Non-current cash and investments	3,178,877	1,508,538
Other assets	<u>479,271</u>	<u>678,147</u>
Total assets	<u>\$48,182,974</u>	<u>\$44,879,940</u>
Liabilities		
Current liabilities	\$ 5,529,866	\$4,290,674
Long-term debt outstanding	<u>21,988,872</u>	<u>22,958,572</u>
Total liabilities	<u>\$27,518,738</u>	<u>\$27,249,246</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 4,715,587	\$4,965,263
Unrestricted	15,705,304	12,423,893
Unrestricted-Board Designated	<u>243,345</u>	<u>241,538</u>
Total Net Assets	<u>\$20,664,236</u>	<u>\$17,630,694</u>

Assets increased by \$3,303,034 or 7% during 2011. A significant component of the change in the Medical Center's assets is the increase of \$4,962,330 in current and non-current investments. (See Note 2 to the financial statements for an explanation of the Medical Center's investments). The increase in investments was a result of available cash generated from operations. (See Statements of Cash Flows for

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details of cash generated from operations) and the onetime payment of \$1,711, 226 from the Bureau of TennCare to assist with the cost of providing uncompensated care. The increase in investments was partially offset by a \$1,208,646 decrease in capital assets. Higher depreciation expense related to the new facility and the associated new equipment increased accumulated depreciation by \$1,815,623 (See Note 1 to the financial statements for an explanation of the Medical Center's capitalization policies and Note 6 for a detail of capital assets). Liabilities increased by \$269,492. Current liabilities increased \$1,239,192 due to a \$1,260,316 increase in estimated third-party settlements (See Note 3 to the financial statements for a summary of the basis of reimbursement with major third-party payors). The long-term debt portion of liabilities decreased by \$969,700 due to the maturing of debt (See Note 8 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 \$3,033,542 or 17% in 2011 and \$1,106,725 or 7% in 2010, as shown in Exhibit 2. The increase in 2011 is primarily due to the \$1,711,226 onetime payment from the Bureau of TennCare discussed above. Operating income increased in 2011 by \$2,351,960 or 543% and decreased in 2010 by \$1,099,785 or 72%, respectively.

*Exhibit 2: Operating Results and Changes in Net Assets*

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES:</b>		
Net patient service revenue	\$20,103,590	\$17,623,501
Other revenue	<u>737,941</u>	<u>586,502</u>
<b>TOTAL OPERATING REVENUES</b>	<u>20,841,531</u>	<u>18,210,003</u>
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	9,331,931	9,301,278
Medical supplies and drugs	1,581,788	1,652,988
Other supplies	389,413	376,749
Insurance	204,860	198,904
Depreciation	1,821,871	1,967,212
Other expenses	<u>4,726,588</u>	<u>4,279,752</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>18,056,451</u>	<u>17,776,883</u>
<b>OPERATING INCOME</b>	<u>2,785,080</u>	<u>433,120</u>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**NONOPERATING REVENUES (EXPENSES)**

Gain on sale of Nursing Home	\$ -	\$ 1,308,815
Interest income	52,425	15,115
Interest expense	(209,224)	(212,125)
Loss on sale of investments	(13,315)	-
Noncapital contribution	65,050	26,000
Noncapital grants	<u>15,100</u>	<u>35,800</u>

**TOTAL NONOPERATING REVENUES  
(EXPENSES), net**

<u>(89,964)</u>	<u>1,173,605</u>
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**EXCESS OF REVENUES OVER EXPENSES**

	2,695,116	1,606,725
Unrealized loss on investments	(24,574)	-
Transfer to Rhea County, Tennessee	-	(500,000)
Capital Grants	<u>363,000</u>	<u>-</u>

**INCREASE IN NET ASSETS**

	3,033,542	1,106,725
Net assets at beginning of year	<u>17,630,694</u>	<u>16,523,969</u>
Net assets at end of year	<u>\$20,664,236</u>	<u>\$17,630,694</u>

**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 2011 are:

- Net patient service revenue increased by \$2,480,089 or 14%. Patient revenue before deductions increased by \$4,235,944 or 11%. The increase was due to a 562 visit or 2% increase in outpatient visits and a 54 or 8% increase in observation admissions. All charges were also increased an average of 3% which resulted in higher gross patient revenue. The increases in patient revenue were offset by contractual adjustments and bad debts (See Note 3 to the financial statements for a summary of the basis of reimbursement with major third-party payors). Contractual adjustments increased \$1,636,094 or 10%. The onetime payment from the TennCare Bureau reduced contractual adjustments by \$1,711,226. Without this payment, contractals would have increased \$3,347,320 or 20%. Increased outpatient revenue, which has higher deduction percentages, has resulted in the growth of contractual adjustments. Bad debt

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increased by \$119,761 or 3%. The increase in bad debt is due to current economic conditions and its impact on the number of patients without insurance.

- Other revenue increased by \$151,439 or 26%. An insurance premium rebate of \$76,539 is included in other revenue. Rental revenue increased \$61,783 due to more rentals of space in the Physician's Annex and higher rental rates.
- Depreciation and amortization expense decreased \$145,341 due to several capital items that were fully depreciated in 2010. (See Note 1 to financial statements for an explanation of the Medical Center's capitalization policies and Note 6 for a detail of capital assets).
- Other expenses increased \$446,836 or 10%. The increase is due primarily to a \$294,617 increase in physician fees. Primary care physicians and surgeons are paid \$300 a weekday and \$400 a weekend night to be on call.

**Nonoperating Revenues**

Nonoperating revenue for 2011 decreased by \$1,263,569. This is due to 2010 including a gain of \$1,308,815 for the gain on the sale of the nursing home (See Note 16 to the financial statements for details on this transaction).

Capital grants in the amount of \$256,500 and \$86,500 were received for the purchase of an electronic medical record system and a digital mammography machine respectively.

**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, 2011, the Medical Center had \$27,681,120 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. During fiscal year 2011, the Medical Center purchased equipment and other depreciable assets of \$606,977 (reduced by \$1,815,623 in related depreciation expense on the balance sheet).

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 \$204,153 at June 30, 2011. In 2007, the Medical Center entered a capital lease to purchase a CT system. The CT system lease has an outstanding principal

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balance of \$65,380 at June 30, 2011. In 2006, the Medical Center obtained funding of \$24,100,000 to construct a replacement facility as detailed in Note 8 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 Board of Directors consists of the following individuals:

- Ronald L. Raper, Board Chairman
- James F. Porter, Sr., Board Vice Chairman
- Barbara Mauldin
- Grover Parks
- Harold Fisher
- Bill Hollin
- Dr. Dan Logan

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

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



## INDEPENDENT AUDITORS' REPORT

**To the Board of Trustees of  
Rhea Medical Center (a component unit of Rhea County, TN):**

We have audited the accompanying financial statements of Rhea Medical Center (a component unit of Rhea County, Tennessee) as of and for the year ended June 30, 2011, 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 audit. The financial statements as of June 30, 2010, were audited by Burk, Pearlman, Nebben & Huggins, PLLC, who merged with Johnson, Hickey, and Murchison, PC as of January 1, 2011, and whose report dated November 22, 2010, expressed an unqualified opinion on those statements.

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, 2011 and 2010, 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 21, 2011, 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 an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages ii through viii 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 information 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.

*Johnson, Nicky & Meacham, P.C.*

November 21, 2011

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
RHEA COUNTY, TENNESSEE)  
BALANCE SHEETS  
JUNE 30, 2011 AND 2010**

**ASSETS**

	<b>2011</b>	<b>2010</b>
<b>CURRENT ASSETS:</b>		
Cash	\$ 6,455,314	\$ 6,747,009
Patient accounts receivable, net of estimated uncollectibles \$1,970,000 in 2011 and \$1,635,000 in 2010	2,925,607	2,859,762
Investments	6,428,254	3,136,263
Estimated third-party payor settlements	-	270,746
Inventories	589,835	402,671
Prepaid expenses	49,876	43,375
Other current assets	394,820	343,663
Total current assets	16,843,706	13,803,489
<b>NONCURRENT CASH AND INVESTMENTS:</b>		
Internally designated for capital acquisitions	243,345	241,538
Investments	2,935,532	1,267,000
	3,178,877	1,508,538
<b>CAPITAL ASSETS:</b>		
Land	2,362,513	2,362,513
Depreciable assets, net of accumulated depreciation	25,318,607	26,527,253
	27,681,120	28,889,766
<b>OTHER ASSETS:</b>		
Bond issuance costs, net of accumulated amortization of \$31,241 in 2011 and \$24,993 in 2010	137,459	143,707
Other assets	341,812	534,440
	479,271	678,147
	\$ 48,182,974	\$ 44,879,940

(The accompanying notes are an integral part of these statements.)

**LIABILITIES AND NET ASSETS**

	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 976,661	\$ 965,930
Accounts payable	794,255	542,699
Accrued payroll	366,660	614,349
Other accrued expenses	348,676	384,398
Estimated third-party payor settlements	<u>3,043,614</u>	<u>1,783,298</u>
Total current liabilities	<u>5,529,866</u>	<u>4,290,674</u>
<b>LONG-TERM DEBT</b> , net of current maturities	<u>21,988,872</u>	<u>22,958,572</u>
	<u>27,518,738</u>	<u>27,249,246</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	4,715,587	4,965,263
Unrestricted	15,705,304	12,423,893
Unrestricted - board designated	<u>243,345</u>	<u>241,538</u>
	<u>20,664,236</u>	<u>17,630,694</u>
	<u>\$ 48,182,974</u>	<u>\$ 44,879,940</u>

(The accompanying notes are an integral part of these statements.)

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
RHEA COUNTY, TENNESSEE)  
STATEMENTS OF REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES:</b>		
Net patient service revenue	\$ 20,103,590	\$ 17,623,501
Other revenue	737,941	586,502
	<u>20,841,531</u>	<u>18,210,003</u>
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	9,331,931	9,301,278
Medical supplies and drugs	1,581,788	1,652,988
Other supplies	389,413	376,749
Insurance	204,860	198,904
Depreciation and amortization	1,821,871	1,967,212
Other expenses	4,726,588	4,279,752
	<u>18,056,451</u>	<u>17,776,883</u>
<b>OPERATING INCOME</b>	<u>2,785,080</u>	<u>433,120</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>		
Gain on sale of nursing home business	-	1,308,815
Interest income	52,425	15,115
Interest expense	(209,224)	(212,125)
Loss on sale of investments	(13,315)	-
Noncapital contribution	65,050	26,000
Noncapital grants	15,100	35,800
	<u>(89,964)</u>	<u>1,173,605</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	2,695,116	1,606,725
Unrealized loss on investments	(24,574)	-
Transfer to Rhea County, Tennessee	-	(500,000)
Capital grants	363,000	-
	<u>3,033,542</u>	<u>1,106,725</u>
<b>INCREASE IN NET ASSETS</b>	3,033,542	1,106,725
<b>NET ASSETS, beginning of year</b>	<u>17,630,694</u>	<u>16,523,969</u>
<b>NET ASSETS, end of year</b>	<u>\$ 20,664,236</u>	<u>\$ 17,630,694</u>

(The accompanying notes are an integral part of these statements.)

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
RHEA COUNTY, TENNESSEE)  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third-party payors	\$ 17,463,172	\$ 16,045,608
Cash payments to suppliers for goods and services	(4,714,931)	(5,120,603)
Cash payments to employees for services	(7,530,283)	(7,252,892)
Other revenue	737,941	586,502
	<u>5,955,899</u>	<u>4,258,615</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Noncapital grants and contributions	80,150	61,800
Sale of nursing home business	-	1,308,815
Transfer to Rhea County, Tennessee	-	(500,000)
	<u>80,150</u>	<u>870,615</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital grants	363,000	-
Interest paid on debt	(209,224)	(212,125)
Purchase of property and equipment	(574,757)	(451,570)
Payments on long-term debt	(958,969)	(932,644)
Proceeds from sale of equipment	-	74,252
	<u>(1,379,950)</u>	<u>(1,522,087)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received	52,425	15,115
Purchases of investments	(6,296,144)	(4,408,208)
Sales of investments	1,295,925	-
	<u>(4,947,794)</u>	<u>(4,393,093)</u>
<b>NET DECREASE IN CASH:</b>	(291,695)	(785,950)
Beginning	<u>6,747,009</u>	<u>7,532,959</u>
Ending	<u>\$ 6,455,314</u>	<u>\$ 6,747,009</u>

(The accompanying notes are an integral part of these statements.)

	<u>2011</u>	<u>2010</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 2,785,080	\$ 433,120
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	1,821,871	1,967,212
Provision for bad debts	-	-
Net (increase) decrease in operating assets -		
Accounts receivable	(4,171,480)	(3,051,020)
Estimated third-party payor settlements	270,746	626,825
Inventories	(187,164)	54,834
Prepaid expenses	(6,501)	43,137
Other assets	141,471	(266,103)
Net increase (decrease) in operating liabilities -		
Accounts payable	219,336	(370,813)
Accrued payroll	(247,689)	(66,703)
Other accrued expenses	(35,722)	55,949
Estimated third-party payor settlements	<u>1,260,316</u>	<u>846,303</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,850,264</u>	<u>\$ 272,741</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:**

The Medical Center purchased \$32,220 of software at year end, which is included in accounts payable at June 30, 2011 on the balance sheets.

(The accompanying notes are an integral part of these statements.)

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Organization –**

Rhea Medical Center (the Medical Center) is a public corporation. It was created February 7, 1957, by an act of the State of Tennessee Assembly to operate, control, and manage the general short-term hospital, and various health clinics. The Rhea County, Tennessee Board of County Commissioners appoint 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 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 2011 net patient service revenue increased by approximately \$96,000 due to prior year retroactive adjustments in excess amounts of amounts previously estimated.

Revenue from the Medicare and Medicaid programs accounting for approximately 32 and 18 percent, respectively, for the year ended June 30, 2011, and 39 and 11 percent, respectively, for the year ended June 30, 2010, 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.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued):

**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.

**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 collectability of 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.

**Cash and cash equivalents –**

The Hospital considers currency on hand and demand deposits with financial institutions to be cash. The Hospital considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents exclude amounts limited as to use by internal designation or held by trustees under bond indenture agreements and amounts restricted by donors. There were no cash equivalents at June 30, 2011.

**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.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued):

**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 useful lives follows –

Land improvements	10-15 years
Building improvements	10-50 years
Major removable equipment	5-25 years
Fixed equipment	10-25 years

**Cost 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 2011 or 2010.

**Deposits –**

The Medical Center considers currency on hand and demand deposits with financial institutions to be cash. The Medical Center considers all highly liquid debt 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, 2011 and 2010.

**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.

Bond issuance costs at June 30, 2011 and 2010, is as follows –

	<u>2011</u>	<u>2010</u>
Bond issuance costs	\$ 168,700	\$ 168,700
Less accumulated amortization	<u>31,241</u>	<u>24,993</u>
	<u>\$ 137,459</u>	<u>\$ 143,707</u>

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued):

**Bond issuance costs** (continued) –

Amortization expense was \$6,248 for June 30, 2011 and 2010. Estimated amortization expense for the next five fiscal years is as follows –

For the year ending June 30, 2012	\$ 6,248
2013	6,248
2014	6,248
2015	6,248
2016	6,248

**Risk management** –

The Medical Center is exposed to various risks or 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, 2011 or 2010.

**(2) 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 \$6,336,576 and \$6,687,428 at June 30, 2011 and 2010, 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.

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**(2) DEPOSITS AND INVESTMENTS** (Continued):

**Custodial risk – investments –**

The Medical Center's investment are subject to custodial risk as follows –

	<u>2011</u>	<u>2010</u>
Investments:		
Insured by the FDIC	\$ 9,607,131	\$ 4,644,801
Collateralized	-	-
	<u>\$ 9,607,130</u>	<u>\$ 4,644,801</u>

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

	<u>2011</u>	<u>2010</u>
Carrying amount:		
Deposits	\$ 6,453,885	\$ 6,745,459
Certificates of deposit	9,607,131	4,644,801
Cash on hand	<u>1,429</u>	<u>1,550</u>
	<u>\$ 16,062,445</u>	<u>\$ 11,391,810</u>
Included in the following balance sheet captions:		
Cash	\$ 6,455,314	\$ 6,747,009
Current investments	6,428,254	3,136,263
Internally designated for capital acquisition	243,345	241,538
Noncurrent investments	<u>2,935,532</u>	<u>1,267,000</u>
	<u>\$ 16,062,445</u>	<u>\$ 11,391,810</u>

The certificates of deposit are with various U.S. financial institutions and mature with various terms through July 2013.

**(3) 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.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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JUNE 30, 2011 AND 2010**

**(3) NET PATIENT SERVICE REVENUE (Continued):**

**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.

**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.

**(4) INVENTORIES:**

Inventories on June 30, 2011 and 2010, consist of the following –

	<u>2011</u>	<u>2010</u>
Pharmacy	\$ 143,879	\$ 121,822
General supplies	106,624	78,945
Dietary	14,786	10,893
Laboratory	28,867	29,333
X-ray	15,742	11,203
Surgery	<u>279,937</u>	<u>150,475</u>
	<u>\$ 589,835</u>	<u>\$ 402,671</u>

**(5) 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.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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**(6) CAPITAL ASSETS:**

A summary of changes in capital assets follows –

	<u>2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>2011</u>
Land	\$ 2,362,513	\$ -	\$ -	\$ 2,362,513
Land improvements	65,951	-	-	65,951
Buildings and improvements	27,517,086	-	-	27,517,086
Major moveable equipment	11,423,943	606,077	-	12,030,020
Fixed equipment	941,525	-	-	941,525
Construction in progress	-	900	-	900
Totals at historical cost	<u>42,311,018</u>	<u>606,977</u>	<u>-</u>	<u>42,917,995</u>
Less accumulated depreciation for:				
Land improvements	60,260	1,538	-	61,798
Buildings and improvements	5,384,904	704,256	-	6,089,160
Major moveable equipment	7,177,357	1,105,182	-	8,282,539
Fixed equipment	798,731	4,647	-	803,378
	<u>13,421,252</u>	<u>1,815,623</u>	<u>-</u>	<u>15,236,875</u>
Property and equipment, net	<u>\$ 28,889,766</u>	<u>\$ (1,208,646)</u>	<u>\$ -</u>	<u>\$ 27,681,120</u>

	<u>2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>2010</u>
Land	\$ 2,362,513	\$ -	\$ -	\$ 2,362,513
Land improvements	65,951	-	-	65,951
Buildings and improvements	27,475,984	41,102	-	27,517,086
Major moveable equipment	11,300,321	410,470	286,848	11,423,943
Fixed equipment	941,525	-	-	941,525
Construction in progress	-	-	-	-
Totals at historical cost	<u>42,146,294</u>	<u>451,572</u>	<u>286,848</u>	<u>42,311,018</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	785,899	12,832	-	798,731
	<u>11,672,886</u>	<u>1,960,962</u>	<u>212,596</u>	<u>13,421,252</u>
Property and equipment, net	<u>\$ 30,473,408</u>	<u>\$ (1,509,390)</u>	<u>\$ 74,252</u>	<u>\$ 28,889,766</u>

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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**(7) 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 physician's contracts. At June 30, 2011 and 2010, respectively, the assets totaled \$697,659 and \$789,526, net of accumulated amortization.

Other assets also include various lease deposits and prepayments totaling \$38,973 and \$88,577 at June 30, 2011 and 2010, respectively.

**(8) LONG-TERM DEBT:**

	<b>2011</b>	<b>2010</b>
Loan agreement	\$ 22,696,000	\$ 23,409,000
Capital lease obligation payable in monthly installments of \$7,657, including interest until February 2012, secured by a CT system	65,380	144,174
Capital lease obligation payable in monthly installments of \$14,970, including interest until August 2012, secured by an MRI system	204,153	371,328
Total long-term debt	22,965,533	23,924,502
Less current maturities of long-term debt	976,661	965,930
Long-term debt, net of current maturities	\$ 21,988,872	\$ 22,958,572

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 (0.27% at June 30, 2011).

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 \$46,501 at June 30, 2011.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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**(8) LONG-TERM DEBT** (Continued):

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 \$188,643 at June 30, 2011.

Scheduled payments on long-term debt are as follows –

		<u>Long-Term Debt</u>		<u>Capital Lease Obligations</u>	
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
June 30,	2012	\$ 735,000	\$ 147,368	\$ 241,661	\$ 6,889
	2013	758,000	142,441	27,872	2,068
	2014	781,000	137,363	-	-
	2015	805,000	132,129	-	-
	2016	830,000	126,733	-	-
	2017-2021	4,553,000	546,681	-	-
	2022-2026	5,305,000	384,335	-	-
	2027-2031	6,181,000	195,159	-	-
	2032-2033	2,748,000	18,275	-	-
		<u>\$ 22,696,000</u>	<u>\$ 1,830,484</u>	<u>\$ 269,533</u>	<u>\$ 8,957</u>

\*Future interest payments are based on the loan amounts outstanding and interest rates in effect at June 30, 2011, and do necessarily represent the payments that will be required.

Activity for long-term debt as of June 30, 2011 and 2010 follows –

	<u>2010</u>			<u>Amounts Due</u>	
	<u>2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>2011</u>	<u>Within One Year</u>
Bonds payable	\$ 23,409,000	\$ -	\$ 713,000	\$ 22,696,000	\$ 735,000
Capital lease #1	144,174	-	78,794	65,380	65,380
Capital lease #2	371,328	-	167,175	204,153	176,281
	<u>\$ 23,924,502</u>	<u>\$ -</u>	<u>\$ 958,969</u>	<u>\$ 22,965,533</u>	<u>\$ 976,661</u>

  

	<u>2009</u>			<u>Amounts Due</u>	
	<u>2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>2010</u>	<u>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	531,606	-	160,278	371,328	167,175
	<u>\$ 24,857,145</u>	<u>\$ -</u>	<u>\$ 932,256</u>	<u>\$ 23,924,502</u>	<u>\$ 965,930</u>

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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**(9) 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 \$263,124 and \$257,340 for 2011 and 2010, respectively, and are included with accrued payroll in current liabilities.

**(10) 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, 2011 and 2010, was \$400,073 and \$417,907, respectively.

**(11) 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 \$511,146 and \$513,569 in 2011 and 2010, 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.

**(12) WORKING CAPITAL:**

Net working capital at June 30, 2011 and 2010, was \$11,313,840 and \$9,512,815, respectively.

**(13) DESIGNATED NET ASSETS:**

Net assets reported in 2011 and 2010 include \$243,345 and \$241,538, 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.

**(14) 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 expenses included in operations amounted to \$160,827 and \$174,893 in 2011 and 2010, respectively.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**(14) COMMITMENTS AND CONTINGENCIES (Continued):**

**Operating leases** (continued) –

The Medical Center leases space to physicians and others under leases with various terms. Total rental income for all operating leases was \$563,276 and \$501,493 for 2011 and 2010, 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>3,089,145</u>
	<u>\$ 896,045</u>

Minimum future rentals to be received on leases, which are cancelable upon 90 days written notice, as of June 30, 2011, for each of the next 5 years, are as follows –

Year ending June 30, 20112	<u>\$ 348,000</u>
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**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 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 of 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. Total management fees paid to Quorum were \$297,434 and \$271,332 in 2011 and 2010, respectively.

The management services provided pursuant to the fixed fee include budget assistance, accounting supervision, human resources consultations, and access to 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.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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**(14) COMMITMENTS AND CONTINGENCIES (Continued):**

**Management agreement** (Continued) –

Quorum also provides certain ‘key personnel’ to the Medical Center who are Quorum employees. The Medical Center reimburses Quorum for these 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 \$399,380 and \$379,652 for 2011 and 2010, 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.

**(15) 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, 2011 and 2010, follows -

	<u>2011</u>	<u>2010</u>
Medicare	27%	26%
Medicaid/TennCare	4	8
Blue Cross	7	10
Commercial	21	12
Private pay	41	44
	<u>100%</u>	<u>100%</u>

**(16) 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.

**(17) 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 21, 2011.

## **SUPPLEMENTARY INFORMATION**

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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SCHEDULE 1 - NET PATIENT SERVICE REVENUE  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>DAILY PATIENT SERVICES:</b>		
Intensive care unit	\$ 97,590	\$ 170,442
Routine care	<u>2,529,608</u>	<u>2,527,134</u>
	<u>2,627,198</u>	<u>2,697,576</u>
<b>OTHER NURSING SERVICES:</b>		
Central supply	1,608,025	1,073,147
Emergency room	8,308,168	6,448,509
Operating and recovery rooms	<u>2,022,034</u>	<u>1,847,937</u>
	<u>11,938,227</u>	<u>9,369,593</u>
<b>OTHER NURSING SERVICES:</b>		
Anesthesiology	537,729	480,416
Bone densitometry	116,575	94,581
Cardiac rehabilitation	82,580	120,924
CT scans	9,471,792	7,906,502
Electrocardiology	351,439	342,766
Industrial nursing	212,306	232,408
Intravenous therapy	460,084	468,280
Laboratory	5,783,898	5,629,575
MRI	72,557	95,897
Nuclear medicine	2,865,759	2,552,816
Pharmacy	2,235,229	2,343,494
Physical therapy	1,977,745	1,729,120
Radiology	2,718,456	2,295,295
Respiratory therapy	1,045,503	1,848,296
Speech therapy	122,653	155,544
Vascular studies	<u>342,476</u>	<u>363,179</u>
	<u>28,396,781</u>	<u>26,659,093</u>
	<u>42,962,206</u>	<u>38,726,262</u>

	<u>2011</u>	<u>2010</u>
Bad debts	\$ 4,105,635	\$ 3,985,874
Blue Cross	3,164,451	2,769,790
Employee discounts	31,618	28,479
Medicare and Medicaid	12,675,940	11,683,705
Other policy discounts	<u>2,880,972</u>	<u>2,634,913</u>
	<u>22,858,616</u>	<u>21,102,761</u>
	<u>\$ 20,103,590</u>	<u>\$ 17,623,501</u>

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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SCHEDULE 2 - OTHER OPERATING REVENUE  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cafeteria revenue	\$ 53,485	\$ 51,234
Patient histories	398	542
Rental revenue	563,276	501,493
Vending revenue	1,871	1,692
Miscellaneous	<u>118,911</u>	<u>31,541</u>
	<u>\$ 737,941</u>	<u>\$ 586,502</u>

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
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SCHEDULE 3 - SALARIES AND BENEFITS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b>NURSING SERVICES:</b>		
Central supply	\$ 54,827	\$ 43,719
Emergency room	1,267,453	1,251,541
Intensive care unit	106,201	147,793
Nursing	1,360,916	1,342,479
Operating and recovery rooms	495,769	455,865
	3,285,166	3,241,397
<b>OTHER PROFESSIONAL SERVICES:</b>		
Cardiac rehab	71,756	72,627
Clinic	45,166	50,939
CT scans	63,688	58,229
Industrial nursing	114,289	182,992
Laboratory	514,287	505,007
MRI	56,262	59,322
Nuclear medicine	286,523	286,388
Pharmacy	200,756	192,709
Radiology	545,681	509,623
Respiratory therapy	287,579	316,252
	2,185,987	2,234,088
<b>GENERAL SERVICES:</b>		
Building operation and maintenance	94,824	108,432
Dietary	200,714	190,075
Housekeeping	212,260	193,119
Medical records	199,789	199,072
Materials management	-	25,080
	707,587	715,778
<b>ADMINISTRATIVE AND FISCAL SERVICES:</b>		
Administrative and business offices	3,153,191	3,110,015
	\$ 9,331,931	\$ 9,301,278

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
RHEA COUNTY, TENNESSEE)  
SCHEDULE 4 - MEDICAL SUPPLIES AND DRUGS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b>NURSING SERVICES:</b>		
Central supply	\$ 304,842	\$ 390,251
Emergency room	56,023	56,609
Intensive care unit	397	761
Nursing	36,491	35,824
Operating and recovery rooms	135,142	106,363
	532,895	589,808
<b>OTHER PROFESSIONAL SERVICES:</b>		
Cardiac rehab	-	1,242
Clinic	7,632	843
CT scans	48,577	57,738
Intravenous therapy	23,862	21,718
Laboratory	388,391	376,954
MRI	9,457	11,766
Nuclear medicine	77,898	88,570
Pharmacy	429,102	435,602
Physical therapy	6,563	10,875
Radiology	19,858	20,058
Respiratory therapy	37,516	36,963
Speech therapy	37	851
Total other professional services	1,048,893	1,063,180
	<b>\$ 1,581,788</b>	<b>\$ 1,652,988</b>

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
RHEA COUNTY, TENNESSEE)  
SCHEDULE 5 - OTHER SUPPLIES  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<b>2011</b>	<b>2010</b>
<b>NURSING SERVICES:</b>		
Central supply	\$ 693	\$ 507
Emergency room	6,857	9,115
Nursing	15,879	10,986
Operating and recovery rooms	4,194	2,235
	27,623	22,843
<b>OTHER PROFESSIONAL SERVICES:</b>		
Cardiac rehab	1,287	580
Clinic	1,019	774
CT scans	7,740	8,702
Industrial nursing	11,931	9,618
Laboratory	1,938	1,619
Nuclear medicine	269	1,000
Pharmacy	1,240	806
Physical therapy	3,900	2,731
Radiology	4,020	4,135
Respiratory therapy	225	221
	33,569	30,186
<b>GENERAL SERVICES:</b>		
Building operation and maintenance	39,212	46,080
Dietary	154,529	140,534
Gift shop	14,376	12,764
Housekeeping	46,749	47,112
Laundry	-	656
Materials management	-	1,510
Medical records	937	2,986
Professional building	118	250
	255,921	251,892
<b>ADMINISTRATIVE AND FISCAL SERVICES:</b>		
Administrative and business office	72,300	71,828
	\$ 389,413	\$ 376,749

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
RHEA COUNTY, TENNESSEE)  
SCHEDULE 6 - OTHER EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>NURSING SERVICES:</b>		
Central supply	\$ 46	\$ 1,226
Emergency room	78,093	98,754
Intensive care unit	-	1,154
Nursing	164,796	126,104
Operating and recovery rooms	<u>190,013</u>	<u>73,668</u>
	<u>432,948</u>	<u>300,906</u>
<b>OTHER PROFESSIONAL SERVICES:</b>		
Anesthesiology	86,738	85,888
Bone densitometry	2,568	5,431
Cardiac rehab	6,315	9,717
Clinic	71,831	60,487
CT scans	91,321	98,146
Industrial nursing	52,288	39,206
Laboratory	165,606	173,122
Nuclear medicine	167,899	162,051
Pharmacy	28,042	31,843
Physical therapy	647,182	613,456
Radiology	119,124	105,937
Respiratory therapy	17,678	11,206
Speech therapy	<u>74,577</u>	<u>88,422</u>
	<u>1,531,169</u>	<u>1,484,912</u>
<b>GENERAL SERVICES:</b>		
Building operation and maintenance	641,515	592,487
Dietary	22,593	15,004
Gift shop	62	98
Housekeeping	8,620	10,863
Laundry	136,442	121,349
Materials management	54	248
Medical records	95,921	74,605
Professional building	<u>32,011</u>	<u>31,384</u>
	<u>937,218</u>	<u>846,038</u>
<b>ADMINISTRATIVE AND FISCAL SERVICES:</b>		
Administrative and business office	<u>1,825,253</u>	<u>1,647,896</u>
	<u>\$ 4,726,588</u>	<u>\$ 4,279,752</u>



**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, 2011, and have issued our report thereon dated November 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audits, 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weakness. 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 and use of the Board of Trustees, management, the State of Tennessee, and the Rhea County Government and is not intended to be and should not be used by anyone other than these specified parties.

*Johnson, Wickey & Meacham, P.C.*

November 21, 2011