HARDIN MEDICAL CENTER

(a component unit of Hardin County)

Financial Statements and Supplemental Schedules

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

HARDIN MEDICAL CENTER
(a component unit of Hardin County)

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

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Hardin Medical Center
Savannah, Tennessee:

We have audited the accompanying statement of net assets of Hardin Medical Center (Medical Center), a component unit of Hardin County, Tennessee, as of June 30, 2011, and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Medical Center as of and for the year ended June 30, 2010, were audited by other auditors whose report dated December 17, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Hardin Medical Center as of June 30, 2011, and the results of its operations and its cash flows 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 5, 2011 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Lattimore Black Morgan & Cain, P.C.

Brentwood, Tennessee
December 5, 2011

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, 2011.

FINANCIAL HIGHLIGHTS

Condensed information follows:

	2011	2010	Increase (Decrease) $	Increase (Decrease) %	2009
Total assets	$ 34,964,350	$ 28,707,485	$ 6,256,865	21.80%	$ 27,413,213
Current liabilities	4,224,683	3,745,160	479,523	12.80%	2,809,144
Long-term liabilities	9,271,443	6,976,536	2,294,907	32.89%	7,419,304
Total net assets, invested in capital assets, net of related debt	6,521,219	6,242,750	278,469	4.46%	5,615,960
Total net assets, unrestricted	14,947,005	11,743,039	3,203,966	27.28%	11,568,805
Net patient service revenue	33,411,839	28,522,682	4,889,157	17.14%	29,787,170
Total revenues	36,272,430	30,016,214	6,256,216	20.84%	30,260,886
Total expenses	32,789,995	29,215,190	3,574,805	12.24%	29,731,066
Change in net assets	3,482,435	801,024	2,681,411	334.75%	529,820
Ending net assets	21,468,224	17,985,789	3,482,435	19.36%	17,184,765

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 Hospital 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, $4,135,597 of fixed assets were acquired. Accumulated depreciation increased $1,404,576.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

Hardin Medical Center (including the Health and Rehabilitation Center) had a net profit of $3,482,435 and generated $97 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 Hospital 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, 2011, the Hospital and Health and Rehabilitation Center project an increase of 2.6% in net patient service revenue, an increase of 5.5% in salaries, and an increase of 2.0% in other expenses.

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
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HARDIN MEDICAL CENTER
(a component unit of Hardin County)

Statements of Net Assets

June 30, 2011 and 2010

Assets

	2011	2010
Current assets:		
Cash and cash equivalents	$ 5,309,041	$ 4,083,600
Investments	3,657,254	3,380,329
Patient accounts receivable, less allowance for uncollectible accounts of approximately $2,256,000 and $1,385,000 in 2011 and 2010, respectively	6,057,185	4,721,531
Other accounts receivable	1,047,681	190,222
Estimated third-party payor settlements	-	137,446
Inventories	1,482,383	1,281,228
Prepaid expenses and other current assets	35,370	9,496
Total current assets	17,588,914	13,803,852
Property and equipment, net	16,412,075	13,681,054
Investments	371,920	462,917
Other assets	591,441	759,662
	$ 34,964,350	$ 28,707,485

Liabilities and Net Assets

	2011	2010
Current liabilities:		
Current portion of long-term debt	$ 333,438	$ 253,000
Current portion of capital lease obligations	285,975	208,768
Accounts payable	1,282,459	1,378,797
Accrued expenses	2,054,255	1,441,678
Estimated third-party payor settlements	181,797	-
Deferred revenue	86,759	462,917
Total current liabilities	4,224,683	3,745,160
Long-term debt, excluding current portion	6,994,832	6,578,500
Capital lease obligations, excluding current portion	2,276,611	398,036
Total liabilities	13,496,126	10,721,696
Net assets:		
Unrestricted:		
Invested in capital assets, net of related debt	6,521,219	6,242,750
Unrestricted net assets	14,947,005	11,743,039
Total unrestricted net assets	21,468,224	17,985,789
	$ 34,964,350	$ 28,707,485

See accompanying notes to the financial statements.

HARDIN MEDICAL CENTER
(a component unit of Hardin County)

Statements of Revenue, Expenses and Changes in Net Assets

Years ended June 30, 2011 and 2010

	2011	2010
Operating revenue:		
Patient service revenue, net of provision for bad debts of $3,444,698 and $3,948,910 in 2011 and 2010, respectively	$ 33,411,839	$ 28,522,682
Other revenue	1,044,563	414,322
Total operating revenue	34,456,402	28,937,004
Expenses:		
Salaries and wages	15,241,533	12,908,382
Employee benefits	3,274,200	3,547,524
Purchased services	2,723,092	2,058,625
Consultants	315,024	257,886
Insurance	341,939	261,970
Supplies	6,498,234	5,460,625
Utilities	385,876	340,957
Repairs and maintenance	1,500,650	1,486,529
Rent	300,124	270,591
Physician recruitment	262,651	527,922
Depreciation and amortization	1,404,576	1,517,496
Other expenses	469,526	494,298
Total expenses	32,717,425	29,132,805
Operating income (loss)	1,738,977	(195,801)
Nonoperating income (expense):		
Interest income	96,312	188,732
Interest expense	(72,570)	(82,385)
Grants	-	62,078
Contributions	1,588,417	-
Gain on sale of home health operations	-	727,925
Other revenue	131,299	100,475
Nonoperating income, net	1,743,458	996,825
Excess of revenue over expenses	3,482,435	801,024
Net assets at beginning of year	17,985,789	17,184,765
Net assets at end of year	$ 21,468,224	$ 17,985,789

See accompanying notes to the financial statements.

HARDIN MEDICAL CENTER
(a component unit of Hardin County)

Statements of Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 32,256,942	$ 29,807,562
Payments to suppliers and employees	(32,257,010)	(26,664,787)
Other receipts and payments, net	963,562	620,247
Net cash provided by operating activities	963,494	3,763,022
Cash flows from noncapital financing activities -		
Contributions received	1,588,417	-
Other noncapital contributions	100,066	100,475
Net cash provided by noncapital financing activities	1,688,483	100,475
Cash flows from capital and related financing activities:		
Proceeds from long-term debt	756,667	-
Principal paid on long-term debt	(259,896)	(247,000)
Interest paid on long-term debt	(54,941)	(55,419)
Repayment of capital lease obligations	(208,768)	(342,248)
Interest paid on capital lease obligations	(17,629)	(26,966)
Proceeds from sale of home health operations	-	733,666
Purchases of property and equipment	(1,971,047)	(1,560,778)
Net cash used by capital and related financing activities	(1,755,614)	(1,498,745)
Cash flows from investing activities:		
Distributions from joint venture	15,541	-
Investment income	127,545	188,732
Purchases of investments, net	-	(905,468)
Proceeds from investments, net	185,992	-
Net cash provided (used) by investing activities	329,078	(716,736)
Increase in cash and cash equivalents	1,225,441	1,648,016
Cash and cash equivalents at beginning of year	4,083,600	2,435,584
Cash and cash equivalents at end of year	$ 5,309,041	$ 4,083,600

See accompanying notes to the financial statements.

HARDIN MEDICAL CENTER
(a component unit of Hardin County)

Statements of Cash Flows, Continued

Years ended June 30, 2011 and 2010

		2011		2010
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	$	1,738,977	$	(195,801)
Adjustments to reconcile changes in net assets to cash provided by operating activities:				
Depreciation and amortization		1,404,576		1,517,496
Provision for bad debts		3,444,698		3,948,910
(Increase) decrease in operating assets:				
Patient accounts receivable		(4,780,352)		(3,133,787)
Other accounts receivable		(857,459)		53,486
Estimated third-party payor settlements		319,243		408,029
Inventories		(201,155)		74,700
Prepaid expenses and other current assets		(25,874)		28,752
Restricted cash		(370,184)		54,337
Other assets		150,943		235,245
Increase (decrease) in operating liabilities:				
Accounts payable		(96,338)		176,898
Accrued expenses		612,577		388,840
Other long-term liabilities		(376,158)		205,917
Net cash provided by operating activities	$	963,494	$	3,763,022
Supplemental schedule of noncash investing, capital and financing activities:				
Equipment acquired under capital lease obligation	$	2,164,550	$	-

See accompanying notes to the financial statements.

(1) Nature of operations

Hardin Medical Center (Medical Center) and HMC Health and Rehabilitation Center (HMCHRC) are both located in Savannah, Tennessee. The Medical Center is a community medical center providing general and specialized medical services to patients. HMCHRC is a 73-bed intermediate and skilled care facility. The Medical Center is a component unit of Hardin County, Tennessee (the County). The County Board of Commissioners is responsible for appointing each member of the Medical Center's Board of Commissioners which also oversees HMCHRC's activities. Information relative to the County may be obtained by reading its separately issued financial statements.

(2) Summary of significant accounting policies

(a) Basis of presentation

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

(b) Cash, cash equivalents, and investments

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

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

At June 30, 2011 and 2010, the total carrying value of the Medical Center's cash, cash equivalents and investments, was $9,338,215 and $7,926,846, respectively, and the bank balance was $9,344,220 and $7,934,584, respectively. The entire financial institution balance was covered by federal depository insurance or by collateral held by the trustee in the Medical Center's name.

(c) Inventories

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

(d) Patient accounts receivable

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Medical Center provides an allowance for uncollectible accounts based on a review of outstanding receivables, historical collection information and existing economic conditions.

(e) Fair value measurements

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Medical Center has approximately \$3,700,000 and \$3,800,000 as of June 30, 2011 and 2010, respectively, in certificates of deposit that would be classified as Level 2 under the hierarchy above. The Medical Center does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2011 and 2010.

(f) Property and equipment

Property and equipment acquisitions are recorded at cost. The Medical Center capitalizes purchases that cost a minimum of \$5,000 and have a useful life greater than one year. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 5-30 years; buildings and improvements 5-50 years; equipment 3-20 years; and furniture and fixtures 5-30 years. Assets under capital lease obligations are included in property and equipment and the related amortization and accumulated amortization are included in depreciation and amortization expense and accumulated depreciation and amortization, respectively.

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

(g) Restricted cash

Restricted cash is designated by the Board of Commissioners for future capital improvements over which the Board retains control and may at its discretion use for other purposes.

(h) Physician Guarantees

The Medical Center has entered into agreements with local physicians whereby it will guaranty monthly income, subject to stated maximums. The loans are to be forgiven if the physicians maintain a practice in the area for specified terms. At June 30, 2011 and 2010, physician guarantees totaled $459,999 and $662,371, respectively and are included in other assets within the statement of net assets.

(i) Patient service revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient service revenue is net of contractual adjustments and policy discounts of approximately $34,000,000 and $29,000,000 for the years ended June 30, 2011 and 2010, respectively. Approximately 38% and 30% of net patient service revenue was from Medicare for the years ended June 30, 2011 and 2010, respectively. Approximately 17% and 14% of net patient service revenue was from Medicaid/TennCare for the years ended June 30, 2011 and 2010, respectively.

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

(j) Employee benefit plans

Medical Center employees are covered under The Tennessee Consolidated Retirement System, a defined benefit plan, or a 403(b) defined contribution plan. The Medical Center's costs are charged to expense and funded annually.

(k) Compensated absences

The Medical Center provides its full-time employees with paid days off for holiday, vacation, sick, and bereavement absences. The qualifying date for receiving annual vacation is the employees' full-time anniversary date and is based on the table which follows. Such days may be taken only after the employee has earned them. All earned days must be taken within 24 months from the anniversary date earned. Such liabilities have been accrued in the accompanying statement of net assets.

Years of service	Days earned per year
1-7	10
8-15	15
16 or more	20

Employees accrue their sick days upon their three month anniversary date and accrue one sick day per month thereafter. No payment is made for accumulated sick leave when an employee terminates employment.

(l) Risk management

The Medical Center is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance is purchased for claims arising from such matters. The Medical Center is self-insured for employee health and workers' compensation claims and judgments as discussed in Note 12.

(m) Net assets

All resources that are not restricted by donors are included in unrestricted net assets. Resources temporarily restricted by donors for specific purposes are reported as temporarily restricted net assets. When specific purposes are achieved, either through passage of a stipulated time or the purpose for restriction is accomplished, they are classified to unrestricted net assets and reported in the statement of revenues, expenses and changes in net assets. Resources temporarily restricted by donors for additions to land, building and equipment are initially reported as temporarily restricted net assets and are transferred to unrestricted net assets when expended. Donor-imposed restrictions which stipulate that the resources be maintained permanently are reported as permanently restricted net assets. Investment income for permanently restricted net assets is classified as either temporarily restricted or unrestricted based on the intent of the donor. As of June 30, 2011, there were no permanently or temporarily restricted net assets.

(n) Income taxes

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

(o) Performance indicator

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

(p) New accounting pronouncements

In August 2010, accounting standards relating to the presentation of insurance claims and related insurance recoveries for health care entities were amended to require the entity to recognize an insurance receivable at the same time that it recognizes the liability, measured on the same basis of the liability. These amendments are effective for financial statements for fiscal years beginning after December 15, 2010. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2012.

In August 2010, accounting standards relating to the disclosure of charity care for health care entities were amended to require the entity to measure charity care based on the direct and indirect costs of providing the charity care. These amendments are effective for financial statements for fiscal years beginning after December 15, 2010. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2012.

The Medical Center is currently assessing the impact of adopting these accounting standards.

(q) 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.

(r) Reclassifications

Certain reclassifications have been made to the 2010 financial statements in order for them to conform to the 2011 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

(s) Events occurring after reporting date

The Medical Center has evaluated events and transactions that occurred between June 30, 2011 and December 5, 2011, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Third-party reimbursement programs

The Medical Center receives revenue under various third-party reimbursement programs which include Medicare, Medicaid, TennCare, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. The adjustments resulting from tentative or final settlements to estimated reimbursement amounts resulted in an increase(decrease) to patient service revenue of approximately $(68,000) and $(56,000) for the years ended June 30, 2011 and 2010, respectively.

(a) Medicare

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

(b) Medicaid

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

(c) TennCare

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

(d) Commercial Payors

The Medical Center has entered into payment agreements with certain commercial insurance carriers, HMO's, and PPO's. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge and discounts from established rates.

(e) Credit Concentration

The Medical Center grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. At June 30, 2011 and 2010, the Medical Center had net receivables from the Federal Government (Medicare) of approximately $2,590,000 and $1,570,000, respectively, and from Medicaid/TennCare of approximately $970,000 and $560,000, respectively.

(4) Charity care

Charges excluded from revenue under the Medical Center's charity care policy were $1,759,317 and $1,003,895 for the years ended June 30, 2011 and 2010, respectively.

(5) Inventories

A summary of inventories as of June 30, 2011 and 2010 is as follows:

	2011	2010
Pharmacy	$ 495,453	$ 361,674
Dietary	19,289	17,779
Departmental	967,641	901,775
	$ 1,482,383	$ 1,281,228

(6) Property and equipment

The major classifications and changes in property and equipment as of and for the years ended June 30, 2011 and 2010 are as follows:

	Balance at June 30, 2010	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2011
Land	$ 224,500	$ 50,033	$ -	$ 274,533
Land improvements	317,090	-	-	317,090
Buildings and improvements	14,255,318	2,360,249	-	16,615,567
Equipment	12,989,702	873,837	-	13,863,539
Furniture and fixtures	309,770	-	-	309,770
Assets under capital lease	2,853,852	-	-	2,853,852
	30,950,232	3,284,119	-	34,234,351
Less allowance for depreciation and amortization:				
Land improvements	(282,039)	(15,722)	-	(297,761)
Buildings and improvements	(5,117,457)	(400,202)	-	(5,517,659)
Equipment	(10,531,588)	(733,490)	-	(11,265,078)
Furniture and fixtures	(185,175)	(20,978)	-	(206,153)
Assets under capital lease	(2,246,655)	(234,184)	-	(2,480,839)
	(18,362,914)	(1,404,576)	-	(19,767,490)
	12,587,318	1,879,543	-	14,466,861
Construction in progress	1,093,736	3,162,006	(2,310,528)	1,945,214
	$ 13,681,054	$ 5,041,549	$ (2,310,528)	$ 16,412,075

	Balance at June 30, 2009	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2010
Land	$ 224,500	$ -	$ -	$ 224,500
Land improvements	317,090	-	-	317,090
Buildings and improvements	14,243,318	12,000	-	14,255,318
Equipment	12,500,219	506,899	(17,416)	12,989,702
Furniture and fixtures	268,224	41,546	-	309,770
Assets under capital lease	2,673,852	180,000	-	2,853,852
	30,227,203	740,445	(17,416)	30,950,232
Less allowance for depreciation and amortization:				
Land improvements	(266,317)	(15,722)	-	(282,039)
Buildings and improvements	(4,757,608)	(359,849)	-	(5,117,457)
Equipment	(9,633,787)	(909,477)	11,676	(10,531,588)
Furniture and fixtures	(171,911)	(13,264)	-	(185,175)
Assets under capital lease	(2,027,471)	(219,184)	-	(2,246,655)
	(16,857,094)	(1,517,496)	11,676	(18,362,914)
	13,370,109	(777,051)	(5,740)	12,587,318
Construction in progress	93,403	1,019,255	(18,922)	1,093,736
	$ 13,463,512	$ 242,204	$ (24,662)	$ 13,681,054

The Medical Center is in the process of constructing various additions and improvements to the existing facilities. The total cost of these projects is expected to be approximately $2,300,000. Interest costs of approximately $55,000 were capitalized during the year ended June 30, 2011. No interest was capitalized during the year ended June 30, 2010.

(7) Ambulance Service

The County paid the construction cost of a building to house ambulance facilities and has also purchased ambulances and related equipment but the Medical Center is responsible for operating the ambulance service. Expenditures by the County since the Medical Center began operating the ambulance service in 1997 amounts to $1,438,963 at June 30, 2011. This amount is not reflected within property and equipment in the accompanying financial statements. In addition, the County provides an annual subsidy to defray costs incurred in operating the ambulance service. For the years ended June 30, 2011 and 2010, the annual subsidy was $100,066 and $100,475, respectively. This annual allocation is in addition to the cumulative expenditures mentioned above.

(8) Long-term debt

The major types and changes in the Medical Center's long-term debt as of and for the years ended June 30, 2011 and 2010 is as follows:

	Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Amounts Due Within One Year
Tennessee Valley Electric Cooperative - Series 2007	$ 197,500	$ -	$ (30,000)	$ 167,500	$ 30,000
Tennessee Valley Electric Cooperative - Series 2010	-	740,000	-	740,000	61,668
Public Building Authority of the County of Montgomery, TN - Series 2003	6,634,000	-	(224,000)	6,410,000	231,000
Other	-	16,666	(5,896)	10,770	10,770
	$ 6,831,500	$ 756,666	$ (259,896)	$ 7,328,270	$ 333,438

	Balance at June 30, 2009	Additions	Reductions	Balance at June 30, 2010	Amounts Due Within One Year
Tennessee Valley Electric Cooperative - Series 2007	$ 227,500	$ -	$ (30,000)	$ 197,500	$ 30,000
Public Building Authority of the County of Montgomery, TN - Series 2003	6,851,000	-	(217,000)	6,634,000	223,000
	$ 7,078,500	$ -	$ (247,000)	$ 6,831,500	$ 253,000

During January 2007, the Medical Center borrowed $300,000 from the 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 and 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.

During July 2010, the Medical Center borrowed an additional $740,000 from the Tennessee Valley Electric Cooperative under the Rural Economic Loan and Grant Program. The proceeds were used to finance construction on the cancer treatment center. The note bears no interest and principal is to be repaid in monthly installments of $6,852 through September 2010. Security is a certificate of deposit and an irrevocable standby letter of credit.

During July 2003, the Medical Center entered into a loan agreement with the Public Building Authority of the County of Montgomery, Tennessee (Building Authority) whereby, the Building Authority loaned the Medical Center $8,000,000 for improvements to the Medical Center. The loan agreement bears interest at an adjustable rate (.35% as of June 30, 2011), and is due May 25, 2031. The adjustable interest rate is adjusted weekly as determined by the remarketing agent. The loan is guaranteed by Hardin County.

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

A summary of approximate future maturities and interest of long-term debt as of June 30, 2011 is as follows:

Year	Principal	Estimated Interest	Total Payments
2012	$ 333,438	$ 8,000	$ 341,438
2013	350,000	7,000	357,000
2014	358,000	7,000	365,000
2015	367,000	7,000	374,000
2016	375,000	7,000	382,000
2017 - 2021	1,821,000	28,000	1,849,000
2022 - 2026	1,714,000	18,000	1,732,000
2027 - 2031	2,009,832	7,000	2,016,832
	$ 7,328,270	$ 89,000	$ 7,417,270

(9) Capital lease obligations

The Medical Center has entered into capital lease agreements to finance the acquisition of certain equipment.

The Medical Center's obligation under these capital lease agreements is as follows:

	2011	2010
Minimum lease payments payable	$ 3,354,888	$ 639,192
Less: portion representing interest	792,302	32,388
Capital lease obligations	2,562,586	606,804
Less: current portion	285,975	208,768
Long-term portion	$ 2,276,611	$ 398,036

Approximate future minimum annual lease payments payable under the capital lease agreements as of June 30, 2011 are as follows:

Year	
2012	$ 410,000
2013	410,000
2014	204,000
2015	204,000
2016	204,000
2017 and later years	1,922,888
Total minimum lease payments	3,354,888
Less amount representing interest	792,302
Present value of minimum lease payments under capital leases	2,562,586
Less current portion	285,975
Capital lease obligations, excluding current portion	$ 2,276,611

(10) Deferred revenue

At June 30, 2010, the Medical Center had $462,917 of restricted contributions which were restricted by the donor for specific construction purposes and accounted for as deferred revenue. If the anticipated construction did not occur, the contribution was to be returned to the donor. The construction was completed in fiscal year 2011 and the contribution was recognized. At June 30, 2011, HMCHRC had deferred revenue amounting to $86,759 related to prepayments of July 2011 private pay rent.

(11) Employee benefit plans

Pension plan

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

Effective July 1, 2008, the Medical Center closed the plan to new participants. Those employees who were employed by the Medical Center prior to July 1, 2008 are still eligible to accrue salary and service credit in TCRS. The Medical Center 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 the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at http://www.treasury.state.tn.us/tcrs/PS/.

Funding policy

For employees hired before July 1, 1986, the Medical Center 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 compensation.

The Medical Center is required to contribute at an actuarially determined rate; the rate for the years ended June 30, 2011 and 2010 were 11.96% and 10.59%, respectively, of annual covered payroll. The contribution requirement of plan members is set by State statute. Contribution requirements for the Medical Center are established and may be amended by the TCRS Board of Trustees.

Annual cost

For the years ended June 30, 2011 and 2010, the Medical Center's annual pension cost of $406,156 and $518,260, respectively, to TCRS were equal to its annual required and actual contributions. The required contribution was determined as part of the July 1, 2009 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. The Medical Center's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period as of July 1, 2009 was 6 years.

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 accrual 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%.

Defined contribution plan

During July 2008 the Medical Center began providing a 403(b) plan which covers full-time employees who choose not to participate, or are not allowed to participate, in the defined benefit pension plan described above. The Medical Center 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 years ended June 30, 2011 and 2010 was $393,281 and $359,009, respectively.

(12) Commitments and contingencies

The Medical Center leases various equipment and space under operating lease agreements. Rent expense was $300,124 and $270,591 in 2011 and 2010, respectively. The Medical Center does not have any material future minimum payments as a majority of the leases are on month-to- month terms. It is expected that in the normal course of business, leases that expire will be renewed or replaced by other leases; thus, it is anticipated that future lease payments will not be less than the expense for 2011.

The Medical Center generates rental income primarily from operating leases of medical office buildings and houses. Rental income was $78,067 and $65,747 in 2011 and 2010, respectively, and is included in other operating revenue. Lease terms are yearly or month-to-month.

The Medical Center maintains commercial insurance on a claims-made basis for medical malpractice liabilities. Insurance coverages are $1,000,000 individually and $3,000,000 in the aggregate annually, which is consistent with current litigation settlement limitations established by the State of Tennessee for governmental entities. Management intends to maintain such coverages in the future. The Medical Center is involved in litigation arising in the ordinary course of business; however, management is of the opinion that insurance coverages are adequate to cover any potential losses on asserted claims. Management is unaware of any incidents which would ultimately result in a loss in excess of the Medical Center's insurance coverages.

The Medical Center is self-insured for a portion of employee medical and other healthcare benefits and workers' compensation claims. The risk of loss retained by the Medical Center is limited to $50,000 per year for each employee's medical claims. The Medical Center has purchased excess insurance to provide coverage for claims in excess of the self-insured 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. Reserves included within accrued expenses related to employee medical and other healthcare benefits amounted to $278,255 and $106,947 in 2011 and 2010, respectively.

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

The Centers for Medicare and Medicaid Services ("CMS") have implemented a Recovery Audit Contractors ("RAC") program. The purpose of the program is to reduce improper Medicare payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. While management believes that all Medicare billings are proper and adequate support is maintained, certain aspects of Medicare billing, coding and support are subject to interpretation and may be viewed differently by the RAC auditors.

HARDIN MEDICAL CENTER

Schedule of Net Assets Information

June 30, 2011

Assets

	Hospital	Health and Rehabilitation Center	Eliminations	Total
Current assets:				
Cash and cash equivalents	$ 5,238,201	$ 70,840	$ -	$ 5,309,041
Investments	3,657,254	-	-	3,657,254
Patient accounts receivable, net	5,200,432	856,753	-	6,057,185
Other accounts receivable	1,047,681	-	-	1,047,681
Inventories	1,475,505	6,878	-	1,482,383
Prepaid expenses and other current assets	35,370	-	-	35,370
Total current assets	16,654,443	934,471	-	17,588,914
Property and equipment, net	15,870,275	541,800	-	16,412,075
Investments	371,920	-	-	371,920
Other assets	585,436	6,005	-	591,441
Due from Nursing Home	3,158,411	-	(3,158,411)	-
	$ 36,640,485	$ 1,482,276	$ (3,158,411)	$ 34,964,350

Liabilities and Net Assets

	Hospital	Health and Rehabilitation Center	Eliminations	Total
Current liabilities:				
Current portion of long-term debt	$ 333,438	$ -	$ -	$ 333,438
Current portion of capital lease obligations	285,975	-	-	285,975
Accounts payable	1,144,459	138,000	-	1,282,459
Accrued expenses	1,971,774	82,481	-	2,054,255
Estimated third-party payor settlements	181,797	-	-	181,797
Deferred revenue	-	86,759	-	86,759
Total current liabilities	3,917,443	307,240	-	4,224,683
Long-term debt, excluding current portion	6,994,832	-	-	6,994,832
Capital lease obligations, excluding current portion	2,276,611	-	-	2,276,611
Due to Hospital	-	3,158,411	(3,158,411)	-
Total liabilities	13,188,886	3,465,651	(3,158,411)	13,496,126
Net assets:				
Unrestricted:				
Invested in capital assets, net of related debt	5,979,419	541,800	-	6,521,219
Unrestricted net assets (deficit)	17,472,180	(2,525,175)	-	14,947,005
Total net assets (deficit)	23,451,599	(1,983,375)	-	21,468,224
	$ 36,640,485	$ 1,482,276	$ (3,158,411)	$ 34,964,350

See accompanying independent auditors' report.

HARDIN MEDICAL CENTER

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

Year ended June 30, 2011

	Hospital	Health and Rehabilitation Center	Eliminations	Total
Operating revenue:				
Patient service revenue, net	$ 28,336,936	$ 5,074,903	$ -	$ 33,411,839
Other revenue	1,044,563	-	-	1,044,563
Total operating revenue	29,381,499	5,074,903	-	34,456,402
Expenses:				
Salaries and wages	12,923,479	2,318,054	-	15,241,533
Employee benefits	2,864,371	409,829	-	3,274,200
Purchased services	2,307,596	415,496	-	2,723,092
Consultants	-	315,024	-	315,024
Insurance	227,460	114,479	-	341,939
Supplies	5,456,305	1,041,929	-	6,498,234
Utilities	235,680	150,196	-	385,876
Repairs and maintenance	1,393,108	107,542	-	1,500,650
Rent	300,124	-	-	300,124
Physician recruitment	262,651	-	-	262,651
Depreciation and amortization	1,331,361	73,215	-	1,404,576
Other expenses	281,969	187,557	-	469,526
Total expenses	27,584,104	5,133,321	-	32,717,425
Operating income (loss)	1,797,395	(58,418)	-	1,738,977
Nonoperating income:				
Interest income	95,712	600	-	96,312
Interest expense	(72,570)	-	-	(72,570)
Contributions	1,588,417	-	-	1,588,417
Other revenue	131,299	-	-	131,299
Nonoperating income	1,742,858	600	-	1,743,458
Excess of revenue over expenses (expenses over revenue)	3,540,253	(57,818)	-	3,482,435
Net assets (deficit) at beginning of year	19,911,346	(1,925,557)	-	17,985,789
Net assets (deficit) at end of year	$ 23,451,599	$ (1,983,375)	$ -	$ 21,468,224

See accompanying independent auditors' report.

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

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

The Board of Commissioners
Hardin Medical Center
Savannah, Tennessee:

We have audited the financial statements of Hardin County Medical Center (Medical Center), a component unit of Hardin County, Tennessee, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Medical Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Medical Center's financial statements that is more than inconsequential will not be prevented or detected by the Medical Center's internal control.

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

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

Compliance and Other Matters

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

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

Lattimore Black Morgan & Cain, P.C.

Brentwood, Tennessee
December 5, 2011