MAURY REGIONAL HOSPITAL

Audited Combined Financial Statements
(and Other Information)

Years Ended June 30, 2012 and 2011

PYA

Certified Public Accountants

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Years Ended June 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Maury Regional Hospital:

We have audited the accompanying combined balance sheets of Maury Regional Hospital (the Hospital), a part of the primary government of Maury County, Tennessee, as of June 30, 2012 and 2011 and the related combined statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Maury Regional Hospital as of June 30, 2012 and 2011, 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.

Maury Regional Hospital has omitted a Management Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. The MD&A, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical contest. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 10, 2012 on our consideration of the Hospital'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 controls 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.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 10, 2012

MAURY REGIONAL HOSPITAL

Combined Balance Sheets

	June 30, 2012	June 30, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ **29,233,252**	$ 15,219,864
Certificates of deposit	**631,538**	3,624,301
Investments	**594,982**	514,529
Patient accounts receivable, net of estimated allowance for doubtful accounts of approximately $29,800,000 in 2012 and $28,700,000 in 2011	**33,098,787**	32,677,216
Inventories	**5,207,222**	5,046,752
Prepaid expenses	**2,497,302**	3,490,160
Other receivables	**1,276,556**	1,118,346
TOTAL CURRENT ASSETS	**72,539,639**	61,691,168
ASSETS LIMITED AS TO USE	**34,063,511**	32,767,160
PROPERTY, PLANT AND EQUIPMENT, net	**121,859,610**	118,048,697
OTHER ASSETS		
Debt issue costs, net of accumulated amortization of $102,839 in 2012 and $255,765 in 2011	**130,823**	214,088
Other	**1,083,998**	1,105,390
TOTAL OTHER ASSETS	**1,214,821**	1,319,478
TOTAL ASSETS	$ **229,677,581**	$ 213,826,503

	June 30, 2012	June 30, 2011
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	$ **4,635,143**	$ 4,905,385
Accounts payable and accrued expenses	**11,242,749**	6,845,552
Accrued salaries and wages	**5,162,984**	4,107,816
Accrued compensated absences	**5,003,612**	4,598,316
Accrued workers' compensation	**3,679,238**	3,848,982
Estimated amounts due to third party payors, net	**4,365,750**	4,166,103
Interest payable	**63,702**	111,781
TOTAL CURRENT LIABILITIES	**34,153,178**	28,583,935
OTHER LONG-TERM LIABILITIES, including estimated amounts due to third party payors and retirement benefits	**7,932,249**	7,789,688
LONG-TERM DEBT		
Bonds payable	**20,525,913**	24,624,668
Other long-term debt	**1,198,283**	1,086,967
	21,724,196	25,711,635
Less current portion	**(4,635,143)**	(4,905,385)
TOTAL LONG-TERM DEBT	**17,089,053**	20,806,250
COMMITMENTS AND CONTINGENCIES - Note J		
NET ASSETS		
Invested in capital assets, net of related debt	**100,135,414**	92,337,062
Unrestricted	**70,367,687**	64,309,568
TOTAL NET ASSETS	**170,503,101**	156,646,630
TOTAL LIABILITIES AND NET ASSETS	$ **229,677,581**	$ 213,826,503

MAURY REGIONAL HOSPITAL

Combined Statements of Revenue, Expenses and Changes in Net Assets

	Year Ended June 30, 2012	2011
OPERATING REVENUE		
Net patient service revenue, net of estimated provision for bad debts of approximately $31,200,000 in 2012 and $28,700,000 in 2011	$ 272,940,381	$ 265,048,059
Other operating revenue	10,333,743	5,688,257
TOTAL OPERATING REVENUE	283,274,124	270,736,316
OPERATING EXPENSES		
Salaries, employee benefits and contract labor	156,099,001	148,144,914
Supplies	50,565,033	47,438,501
Purchased services	21,664,436	18,880,640
Professional fees	5,858,446	7,454,792
Repairs and maintenance	3,136,989	3,121,029
Utilities	5,010,260	5,198,079
Leases	3,907,424	4,230,939
Insurance	1,338,799	1,634,243
Other expenses	6,362,469	6,224,790
Depreciation and amortization	16,396,008	17,463,032
TOTAL OPERATING EXPENSES	270,338,865	259,790,959
INCOME FROM OPERATIONS	12,935,259	10,945,357
NONOPERATING REVENUE (EXPENSES)		
Contributions and grants	856,916	676,871
Investment income	802,254	697,704
Interest expense	(818,691)	(1,087,502)
Other	(78,715)	20,665
TOTAL NONOPERATING REVENUE, NET	761,764	307,738
EXCESS OF REVENUE OVER EXPENSES	13,697,023	11,253,095
Minority interest in losses of subsidiaries	159,448	95,921
CHANGE IN NET ASSETS	13,856,471	11,349,016
NET ASSETS, BEGINNING OF YEAR	156,646,630	145,297,614
NET ASSETS, END OF YEAR	$ 170,503,101	$ 156,646,630

MAURY REGIONAL HOSPITAL

Combined Statements of Cash Flows

	Year Ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from patients and insurance programs	**$ 273,600,091**	$ 265,230,389
Payments to vendors for supplies and other	**(92,614,271)**	(96,911,134)
Payments to and on behalf of employees	**(155,547,354)**	(146,965,732)
Other receipts	**9,761,405**	5,238,454
NET CASH PROVIDED BY OPERATING ACTIVITIES	**35,199,871**	26,591,977
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:		
Contributions and grants	**856,916**	676,871
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of property, plant and equipment	**(20,240,995)**	(14,579,937)
Proceeds from sale of equipment	**257,777**	666,367
Proceeds from issuance of long-term debt	**4,983,670**	266,400
Payments on long-term debt	**(8,718,259)**	(4,841,566)
Interest paid on long-term debt	**(1,035,261)**	(1,296,584)
Payment of debt issue costs	**(42,622)**	-
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(24,795,690)**	(19,785,320)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest income received on cash and investments	**802,254**	697,704
Proceeds from maturities of certificates of deposit	**4,255,839**	8,611,512
Purchase of certificates of deposit	**(1,263,076)**	(7,248,602)
Purchases of investments	**(8,782,141)**	(21,365,773)
Investment in joint venture	**-**	(400,000)
Contribution from minority shareholder	**334,078**	-
NET CASH USED IN INVESTING ACTIVITIES	**(4,653,046)**	(19,705,159)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,608,051**	(12,221,631)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**22,625,201**	34,846,832
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 29,233,252**	$ 22,625,201

	Year Ended June 30,	
	2012	***2011***
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINED BALANCE SHEET CLASSIFICATIONS		
Cash and cash equivalents	**$ 29,233,252**	$ 15,219,864
Assets limited as to use	**-**	7,405,337
	$ 29,233,252	$ 22,625,201
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Income from operations	**$ 12,935,259**	$ 10,945,357
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	**16,396,008**	17,463,032
Estimated provision for uncollectible accounts	**31,190,961**	28,721,811
Changes in:		
Patient accounts receivable	**(31,612,532)**	(32,593,971)
Inventories	**(160,470)**	58,699
Prepaid expenses	**992,858**	(311,150)
Estimated amounts due to third party payors	**199,647**	(213,849)
Other assets	**(572,338)**	(449,803)
Accounts payable and accrued expenses	**4,397,197**	(2,475,670)
Accrued salaries and wages	**1,055,168**	(449,902)
Accrued compensated absences	**405,296**	284,972
Accrued workers' compensation	**(169,744)**	6,190
Other long-term liabilities	**142,561**	5,606,261
TOTAL ADJUSTMENTS	**22,264,612**	15,646,620
NET CASH PROVIDED BY OPERATING ACTIVITIES	**$ 35,199,871**	$ 26,591,977

NOTE A--ORGANIZATION

Maury Regional Hospital (the Hospital) is operated and maintained by Maury County, Tennessee, under authority of and in compliance with the provisions of Chapter 125 of the Tennessee Private Acts of 1996. The federal, state, and local governments participated in the cost of constructing and equipping the Hospital under the Hill-Burton Act. For financial reporting purposes, the Hospital is considered an enterprise fund of Maury County, Tennessee (the County).

The Hospital's primary mission is to provide healthcare services to the residents of southern and middle Tennessee, including Giles, Hickman, Lawrence, Lewis, Marshall, Maury, Perry, Wayne, and Williamson counties.

The combined financial statements include the accounts of the following operating entities:

> *Maury Regional Medical Center (MRMC)*, located in Columbia, Tennessee, has been in operation since 1953 and presently has a 275-bed capacity with 20 beds designated for skilled nursing care, and also includes five medical office buildings in its service area.
>
> *Marshall Medical Center* is an acute care hospital, located in Lewisburg, Tennessee, which was acquired by the Hospital in 1995 and, effective January 1, 2005, was designated a Critical Access Hospital with 25 licensed beds.
>
> *Wayne Medical Center* is an acute care hospital with an 80-bed capacity located in Waynesboro, Tennessee, and has been leased by the Hospital since 1995 (see Note I).

Additionally, the combined financial statements include the following blended component units that provide healthcare services that support the Hospital's mission:

> *Family Health Group (FHG)* is a nonprofit corporation which acquires, owns, operates, and manages physician practices in the Hospital's service area. The Hospital is the sole member of FHG.
>
> *Pulmonary and Critical Care Associates, Inc. (PCCA)* was a taxable nonprofit corporation that operated a physician practice in the Hospital's service area. The Hospital was the sole member of PCCA. During 2012, PCCA was dissolved and became a division of FHG.
>
> *Maury Regional Ambulatory Care Center, Inc. (the Ambulatory Care Center)* was a nonprofit corporation that provided medical care to non-emergent patients in the Hospital's service area. The Hospital was the sole member of the Ambulatory Care Center. During 2012, the Ambulatory Care Center was dissolved and became a division of FHG.

NOTE A--ORGANIZATION - Continued

Spring Hill Imaging Center, LLC (the Imaging Center) owns and operates an outpatient center that provides diagnostic and radiology services to patients in the Hospital's service area. The Imaging Center is owned 51% by the Hospital and a minority interest in the cumulative losses has been recognized as a receivable in the accompanying Combined Balance Sheets which represents the interests of physicians and other investors.

Maury Regional Healthcare Foundation is a not-for-profit organization formed in 2007 to coordinate the fundraising activities of the Hospital.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting: The Hospital utilizes the enterprise fund method of accounting. Revenue and expenses are recorded on the accrual basis. In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) Pronouncements.* This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.* The Hospital adopted the provisions of this Statement during fiscal year 2011. The adoption did not have a material impact on the combined financial statements.

Recently Issued or Effective Accounting Pronouncements: In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. The Statement is effective for financial statement periods beginning after June 15, 2012 and amends Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis - for State and Local Governments.* This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Management of the Hospital is evaluating the impact of this Statement on the combined financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement amends the net asset reporting requirements of GASB Statement No. 34 and other pronouncements by incorporating deferred outflows and inflows of resources into the definitions of the required components of the

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

residual measure and renaming that measure as net position, rather than net assets. This Statement will be effective in fiscal year 2013 for the Hospital and is not expected to materially impact the combined financial statements.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes reporting standards that reclassifying items previously reported as assets or liabilities as deferred inflows or outflows. This Statement will be effective for the Hospital in 2014 and management is currently evaluating its impact on the combined financial statements.

In August 2010, FASB issued Accounting Standard Update 2010-23, *Measuring Charity Care for Disclosure*, that amends Topic 954, *Health Care Entities*. This Update provides amendments that require cost to be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. The amendments in this Update also require disclosure of the method used to identify or determine such costs. This Update was effective for the 2012 fiscal year and was applied retrospectively to 2011. Adoption of this Update by the Hospital required additional disclosure in the combined financial statements (see Note C).

Also, in August 2010, FASB issued Accounting Standard Update 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries,* which provides amendments that clarify that a healthcare entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. Prior to this Update, healthcare entities were permitted to net insurance recoveries against the accrual of malpractice claims or similar liabilities. This Update was adopted in 2012 by the Hospital and there was no significant impact upon adoption.

Estimates: The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents includes cash on hand, deposits in banks and investments with a maturity of three months or less when purchased, excluding any amounts whose use is limited by Board designation.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories: Inventories consist principally of medical and surgical supplies and are reported at the lower of cost or market, with cost determined by the average cost method.

Patient Accounts Receivable: Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an estimated allowance for uncollectible accounts. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, TennCare and other third party payor programs. The bad debt allowance is estimated based upon the age of the account, prior experience and any unusual circumstances which affect the collectibility. The Hospital's policy does not require collateral or other security for patient accounts receivable and the Hospital routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Investments and Assets Limited as to Use: Investments and assets limited as to use in debt and equity securities are reported at estimated fair value based on quoted market prices. Interest, dividends, and gains and losses (realized and unrealized) are included in investment income. The Board has designated certain assets as limited as to use for future capital improvements. Assets limited as to use consists of money market deposits, certificates of deposits, and investments.

Property, Plant and Equipment: Property, plant and equipment is reported at cost or fair value at date of gift, if donated. The Hospital has established a capitalization threshold of $1,000. Depreciation is calculated by the straight-line method to allocate the cost of the assets (other than land) over their estimated useful lives which ranges from 3 to 20 years for equipment and 10 to 40 years for buildings and land improvements. Equipment held under capital lease obligations is amortized using the straight-line method over the shorter of the estimated useful life or the lease term. This amortization is included with depreciation expense and as part of accumulated depreciation in the combined financial statements. Interest costs incurred on applicable borrowings outstanding during the construction period of capital assets is capitalized as part of the cost of acquiring the asset and is amortized on the same basis as the related capital asset. Costs of maintenance and repairs are charged to expense when incurred. The Hospital periodically reviews property, plant, and equipment for indications of potential impairment. Management does not believe any impairment exists as of June 30, 2012.

Debt Issue Costs: Debt issue costs are capitalized and amortized using the straight-line method over the life of the related obligation.

Compensated Absences: The Hospital's employees earn paid time off at varying rates depending on years of service. An accrual for paid time off is recorded in the period in which the employee earns the right to the compensation. Employees also earn sick leave benefits based on varying rates

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

depending on years of service and may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire after the age of sixty may convert accumulated sick leave to termination payments. The estimated amount of sick leave which will ultimately be payable as termination payments is reported as a noncurrent liability in the combined financial statements. Due to uncertainties in this estimate, it is at least reasonably possible that management's estimate could change in 2013.

Net Assets: Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

Net Patient Service Revenue: Net patient service revenue is reported as services are rendered at estimated net realizable amounts, including estimated retroactive revenue adjustments under reimbursement agreements with third party payors. Estimated settlements under third party reimbursement agreements are accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. An estimated provision for bad debts is included in net patient service revenue.

Charity Care: The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Operating Activities: The Hospital defines operating activities as reported on the Combined Statements of Revenue, Expenses and Changes in Net Assets as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including contributions and grants, as well as interest income and interest expense, are considered non-operating revenue and expenses.

Contributions and Grants: Revenues from contributions and grants are recognized when all eligibility requirements are met. Contributions and grants may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions, if any, are reported after nonoperating revenue and expenses.

Income Taxes: The Hospital meets the Internal Revenue Service definition of a governmental unit and is exempt from federal income taxes. Certain combined entities are taxable for federal purposes and account for income taxes in accordance with FASB ASC 740, *Income Taxes*. Due to current

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

year and prior year operating losses, no tax expense or benefit has been recognized in the accompanying combined financial statements.

Subsequent Events: The Hospital evaluated all events or transactions that occurred after June 30, 2012 through October 10, 2012, the date the combined financial statements were available to be issued. Management did not note any subsequent events that required recognition or disclosure in the combined financial statements at June 30, 2012.

NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The Hospital has agreements with various third party payors that provide for payments to the Hospital at amounts different from established rates. The difference between the rates charged and the estimated payments from third party payors is recorded as a reduction of gross patient service charges. Revenue for patient service charges have been adjusted to the amounts estimated to be receivable under third party payor arrangements. Amounts recorded under these contractual arrangements are subject to review and final determination by various program intermediaries. Management believes that adequate provision has been made for any adjustments which may result from such reviews. However, due to uncertainties in the estimates, it is at least reasonably possible that management's estimates will change in 2013. Net patient service revenue for the years ended June 30, 2012 and 2011 increased (decreased) by approximately ($600,000) and $900,000, respectively, due to adjustments of estimates or final settlements of prior periods.

A summary of the payment arrangements with significant third party payors follows:

Medicare: Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid primarily on a prospective basis. These rates vary according to a patient classification system that is based on clinical diagnosis, procedures utilized and other factors. The Medicare program continues to reimburse certain other services based on a per diem or on a percentage of cost up to predetermined limits. The Hospital also receives additional payments from the Medicare program for providing services to a disproportionate share of Medicaid (TennCare) and other low income patients. Approximately $11,600,000 and $9,300,000 of net patient accounts receivable are due from the Medicare program at June 30, 2012 and 2011, respectively.

TennCare: The State of Tennessee's Medicaid waiver program (TennCare) provides coverage through several managed care organizations. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts. Approximately $2,900,000 and $2,500,000 of net patient accounts receivable are from payors under the TennCare program at June 30, 2012 and 2011, respectively.

NOTE C--PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE - Continued

During 2012 and 2011, the Hospital received additional distributions under the TennCare Essential Access, federal matching and other programs totaling approximately $1,080,000 and $2,140,000, respectively. Future distributions under these programs are not guaranteed. During 2012, the Hospital received and recognized approximately $2,600,000 from Medicare and $760,000 from TennCare related to the implementation and meaningful use of electronic medical records as provided by the Health Information Technology for Economics and Clinical Health (HITECH) Act. These amounts are subject to audit and adjustment. Any future payments under this program are expected to be at a lessor amount.

Other Payors: The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates, discounts from established charges, and prospectively determined per diem amounts.

Charity Care: The Hospital provides care without charge to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue. The estimated direct and indirect cost of providing these services totaled approximately $4,230,000 and $4,260,000 in 2012 and 2011, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated under a reasonable and systematic approach.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue is as follows:

	Year Ended June 30	
	2012	***2011***
Patient service charges	$ 753,344,422	$ 695,178,988
Estimated contractual adjustments	(436,460,994)	(388,577,494)
Estimated provision for bad debts	(31,190,961)	(28,721,811)
Charity care	(12,752,086)	(12,831,624)
	$ 272,940,381	$ 265,048,059

NOTE D--CASH, CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, INVESTMENTS AND ASSETS LIMITED AS TO USE

The carrying amount of deposits and investments included in the Hospital's Combined Balance Sheets is as follows:

NOTE D--CASH, CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

	2012	*2011*
Bank deposits	$ 35,842,426	$ 27,805,376
Investments	28,680,857	24,320,478
	$ 64,523,283	$ 52,125,854

These amounts are included in the combined financial statements as follows:

	2012	*2011*
Cash and cash equivalents	$ 29,233,252	$ 15,219,864
Certificates of deposit	631,538	3,624,301
Investments	594,982	514,529
Assets limited as to use	34,063,511	32,767,160
	$ 64,523,283	$ 52,125,854

The Hospital holds deposits only in banks participating in the State of Tennessee Collateral Pool, and in banks that provide collateral for all deposits or banks that are members of the Federal Deposit Insurance Corporation (FDIC). Certificates of deposit in excess of the FDIC insurance limit must be issued by a bank that is a member of the Certificate of Deposit Account Registry Service.

Additionally, the Hospital's deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2012, the Hospital's bank balances for deposits totaled $38,778,457, a majority of which was insured by the FDIC or by the bank's participation in the State of Tennessee's collateral pool. Deposits totaling $6,982,467 are collateralized by securities held by the financial institution and pledged as collateral for the Hospital's deposits.

NOTE D--CASH, CASH EQUIVALENTS, CERTIFICATES OF DEPOSIT, INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

The estimated fair values and maturities for investments, all of which were held in the Hospital's name by a custodial bank that is an agent of the Hospital, are as follows:

Investment Type	*Carrying Amount*	*Investment Maturities in Years* *Less than 1*	*1-5*	*N/A*
June 30, 2012				
Mutual funds - fixed income	$ 4,499,441	$ 4,499,441	$ -	$ -
Mutual funds - equity	371,572	-	-	371,572
Government agency bonds	18,129,575	-	18,129,575	-
Corporate bonds	5,680,269	504,950	5,175,319	-
	$ 28,680,857	$ 5,004,391	$ 23,304,894	$ 371,572
June 30, 2011				
Mutual funds - fixed income	$ 3,455,070	$ 3,455,070	$ -	$ -
Mutual funds - equity	281,998	-	-	281,998
Government agency bonds	18,572,390	-	18,572,390	-
Corporate bonds	2,011,020	-	2,011,020	-
	$ 24,320,478	$ 3,455,070	$ 20,583,410	$ 281,998

Interest Rate Risk: As a means to limiting its exposure to fair value losses by rising interest rates, the Hospital's investment policy limits investment in U.S. treasury securities, government agency bonds or notes, corporate bonds, and municipal bonds to those with maturities of less than five years.

Credit Risk: The Hospital's investment policy restricts investments in corporate bonds and municipal bonds to those with a credit rating of at least AA. Mutual fund's underlying investments must meet the same credit ratings as other investments. At June 30, 2012, all the Hospital's investments in corporate bonds were rated at least AA by Standard and Poor's.

Concentration of Credit Risk: The Hospital's investment policy limits investments in corporate bonds to 50% of total investments with no security issuer exceeding 5% of total investments and municipal bonds to 25% of total investments with no security issuer exceeding 5% of total investments. There is no limit on investments in U.S. treasury securities, government agency bonds or notes. Mutual funds containing corporate bonds should not exceed 50% of total investments and a single mutual fund should not exceed 25% of total investments.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will be able to recover the value of its investment or collateral. All investments are in the Hospital's name at a custodial bank.

NOTE E--PROPERTY, PLANT AND EQUIPMENT

A summary of changes in property, plant and equipment and related accumulated depreciation for the years ended June 30, 2012 and 2011 is as follows:

	Balance July 1, 2011	***Additions/ Transfers***	***Retirements***	***Balance June 30, 2012***
Capital assets being depreciated				
Land improvements	$ 5,556,184	$ -	$ -	$ 5,556,184
Buildings	167,858,578	4,272,457	-	172,131,035
Equipment	140,564,575	11,998,756	(3,448,175)	149,115,156
Total capital assets being depreciated	313,979,337	16,271,213	(3,448,175)	326,802,375
Less accumulated depreciation for:				
Land improvements	3,715,609	191,185	-	3,906,794
Buildings	86,497,691	7,297,984	-	93,795,675
Equipment	114,883,686	8,658,404	(3,165,666)	120,376,424
Total accumulated depreciation	205,096,986	16,147,573	(3,165,666)	218,078,893
Total capital assets being depreciated, net	108,882,351	123,640	(282,509)	108,723,482
Capital assets not being depreciated				
Land	6,265,880	1,564,483	-	7,830,363
Construction in progress	2,900,466	2,405,299	-	5,305,765
Total capital assets not being depreciated	9,166,346	3,969,782	-	13,136,128
Total capital assets, net	$ 118,048,697	$ 4,093,422	$ (282,509)	$ 121,859,610

	Balance July 1, 2010	***Additions/ Transfers***	***Retirements***	***Balance June 30, 2011***
Capital assets being depreciated				
Land improvements	$ 5,424,616	$ 131,568	$ -	$ 5,556,184
Buildings	166,452,249	1,423,641	(17,312)	167,858,578
Equipment	134,045,305	10,060,135	(3,540,865)	140,564,575
Total capital assets being depreciated	305,922,170	11,615,344	(3,558,177)	313,979,337
Less accumulated depreciation for:				
Land improvements	3,539,538	176,071	-	3,715,609
Buildings	79,331,452	7,166,239	-	86,497,691
Equipment	108,053,533	9,864,265	(3,034,112)	114,883,686
Total accumulated depreciation	190,924,523	17,206,575	(3,034,112)	205,096,986
Total capital assets being depreciated, net	114,997,647	(5,591,231)	(524,065)	108,882,351
Capital assets not being depreciated				
Land	5,098,378	1,167,502	-	6,265,880
Construction in progress	1,103,375	1,797,091	-	2,900,466
Total capital assets not being depreciated	6,201,753	2,964,593	-	9,166,346
Total capital assets, net	$ 121,199,400	$ (2,626,638)	$ (524,065)	$ 118,048,697

NOTE E--PROPERTY, PLANT AND EQUIPMENT - Continued

During 2012 and 2011, the Hospital capitalized interest expense on construction projects totaling approximately $197,000 and $78,000, respectively. Construction in progress at June 30, 2012 consists primarily of facility renovations and the total estimated costs required to complete construction in progress is approximately $1,300,000.

NOTE F--LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	2012	*2011*
Bonds Payable:		
Series 2012B, Maury County General Obligation Bond issued on behalf of the Hospital, with interest rates from 1.50% to 2.00%, maturing over a 8-year period, with the final payment due April 1, 2020.	$ 4,605,000	$ -
Series 2006B, Maury County General Obligation Bond issued on behalf of the Hospital, with an interest of 4.00%, maturing over a 7-year period, with the final payment due June 1, 2014.	$ 2,570,000	$ 3,775,000
Series 2006, Maury County General Obligation Bonds issued on behalf of the Hospital, with interest rates from 4.125% to 5.00%, maturing over a 15-year period, with the final payment due June 1, 2021.	12,680,000	14,100,000
Series 2005, Maury County General Obligation Bonds rate of 3.50%, with final payment due June 30, 2013.	280,000	2,845,000
Series 2004B, Maury County General Obligation Refunding Bonds issued on behalf of the Hospital; all outstanding principal redeemed during 2012.	-	3,225,000
Total bonds payable	20,135,000	23,945,000
Unamortized gain (loss) on refunding	107,391	(106,203)
Unamortized premiums	283,522	785,871
Total bonds payable, net of unamortized gain (loss) and premiums	20,525,913	24,624,668

NOTE F--LONG-TERM DEBT - Continued

	2012	2011
Other Long-term Debt:		
Notes payable with interest rates ranging from 0% to 6.29% maturing through January, 2014 and secured by equipment and property with a net book value of $1,027,441 at June 30, 2012	407,650	45,573
Line of credit with interest rate of 5.25% due in 2015, maximum available of $775,000	703,318	710,243
Capital lease obligations - see Note H	87,315	331,151
Total other long-term debt	1,198,283	1,086,967
	21,724,196	25,711,635
Less: current portion	4,635,143	4,905,385
	$ 17,089,053	$ 20,806,250

The Hospital's bonds payable are general obligation bonds of Maury County, Tennessee. The bonds were issued for the purpose of acquiring property and equipment or for the retirement of previously outstanding bonds and notes and are secured by unlimited ad valorem taxes on all taxable property within the County.

In May 2012, Maury County issued the Series 2012B General Obligation Refunding Bonds in the amount of $4,605,000. The 2012B Bonds were dated May 23, 2012 and were issued to advance refund all of the outstanding Series 2004B Bonds and the portion of the Series 2005 Bonds maturing June 1, 2014 through June 1, 2020. The 2012B Bonds bear interest at rates ranging from 1.5% to 2.0% and have annual maturities ranging from $315,000 to $1,475,000. Interest on the 2012B Bonds is payable semiannually on April 1 and October 1 of each year. The 2012B Bonds are not subject to redemption prior to maturity. The Hospital's advanced refunding resulted in a gain of $107,391 that has been deferred and reported as a component of bonds payable. The deferred gain will be recognized in operations in future years using the straight-line method.

The Series 2006 Bonds maturing on or after June 1, 2017 are subject to redemption prior to maturity at the option of the County on June 1, 2016 or thereafter, at a redemption price of par plus accrued interest.

The Hospital's scheduled principal maturities on all long-term debt as of June 30, 2012 (including the capital lease obligations and excluding unamortized premiums and gain on refunding) follows:

NOTE F--LONG-TERM DEBT - Continued

Year Ending June 30	*Principal*	*Interest*
2013	$ 4,635,143	$ 796,294
2014	4,199,822	670,371
2015	2,438,318	517,187
2016	1,735,000	402,963
2017	1,740,000	325,663
2017-2021	6,585,000	640,157
	$ 21,333,283	$ 3,352,635

A schedule of changes in long-term debt for the years ended June 30, 2012 and 2011 is as follows:

	Balance July 1, 2011	*Additions/ Amortization*	*Payments/ Maturities*	*Balance June 30, 2012*	*Amounts Due Within One Year*
Bonds payable	$ 23,945,000	$ 4,605,000	$ (8,415,000)	$ 20,135,000	$ 4,135,000
Unamortized gain (loss) on refunding	(106,203)	147,218	66,376	107,391	-
Unamortized premiums	785,871	(108,213)	(394,136)	283,522	-
Other long-term debt	1,086,967	414,575	(303,259)	1,198,283	500,143
	$ 25,711,635	$ 5,058,580	$ (9,046,019)	$ 21,724,196	$ 4,635,143

	Balance July 1, 2010	*Additions/ Amortization*	*Payments/ Maturities*	*Balance June 30, 2011*	*Amounts Due Within One Year*
Bonds payable	$ 27,790,000	$ -	$ (3,845,000)	$ 23,945,000	$ 3,910,000
Unamortized loss on refunding	(146,030)	39,827	-	(106,203)	-
Unamortized premiums	992,728	(206,857)	-	785,871	-
Other long-term debt	1,817,133	266,400	(996,566)	1,086,967	995,385
	$ 30,453,831	$ 99,370	$ (4,841,566)	$ 25,711,635	$ 4,905,385

NOTE G--EMPLOYEE BENEFIT PLANS

Defined Benefit Plan: Prior to May 1, 1997, all employees of the Hospital were eligible to participate in the Maury Regional Hospital Retirement Plan (the Plan), a single-employer public retirement system (PERS), accounted for as a separate entity from the Hospital. The purpose of the Plan is to provide retirement, death, and certain other benefits to employees as specified in the Plan.

The actuarial method generally employed to determine contributions to the Plan is the entry age normal actuarial cost method. Although it has not expressed any intention to do so, the Hospital has

NOTE G--EMPLOYEE BENEFIT PLANS - Continued

the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

The Plan was amended effective May 1, 1997 to stop accrual of benefit service on April 30, 1997 for participants who made an irrevocable election to participate in the Maury Regional Healthcare System 403(b) Plan on May 1, 1997. As of May 1, 2012, 113 participants are earning future service accruals. Employees hired after May 1, 1997, are not eligible to participate in the Plan.

Defined Benefit Plan Funding Policy: Voluntary contributions may not be made by participants. The Hospital's contributions are based on an actuarially determined rate. The Hospital's annual pension cost for 2012 was $728,000. The Hospital's net pension obligation to the Plan for 2012 and 2011 was zero. The annual required contribution for the current year was determined as part of the May 1, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions used included the following:

- 8.00% investment rate of return
- projected salary increases ranging from 4.0% to 7.5% per year
- amortization method - level dollar amount

Three-Year Trend Information

Fiscal Year	*Annual Required Contribution*	*Percentage Contributed*	*Pension Obligation*
April 30, 2010	785,010	100.00%	-
April 30, 2011	752,987	100.00%	-
April 30, 2012	728,000	100.00%	-

A schedule of funding progress for the Plan follows:

Actuarial Valuation Date	*Actuarial Value of Assets (a)*	*Actuarial Accrued Liability (AAL) (b)*	*Unfunded AAL (UAAL) (b-a)*	*Funded Ratio (a/b)*	*Covered Payroll (c)*	*UAAL as a % of Covered Payroll (b-a)/c*
May 1, 2010*	39,793,024	43,271,426	3,478,402	92.0%	5,423,206	64.1%
May 1, 2011*	40,609,452	43,936,214	3,326,762	92.4%	5,061,006	65.7%
May 1, 2012*	41,072,361	45,825,802	4,753,441	89.6%	5,236,422	90.8%

*Entry age normal actuarial method utilized for determining the unfunded actuarial liability.

NOTE G--EMPLOYEE BENEFIT PLANS - Continued

The unfunded actuarial accrued liability is being amortized as a level percentage of covered payroll over 30 years beginning in fiscal 2009.

Defined Contribution Plan: Effective May 1, 1997, the Hospital implemented a defined contribution plan which includes a 403(b) feature and an employer matching provision and covers substantially all hourly and salaried employees. Voluntary contributions may be made by the participants as a percentage of annual compensation not to exceed Internal Revenue Service limits. The Hospital's contribution consists of a base contribution of 3% of annual covered compensation and a matching contribution equal to 50% of the employees' first 5% of annual compensation contributed. The Hospital's total contributions for the years ended June 30, 2012 and 2011 amounted to approximately $4,270,000 and $3,930,000, respectively.

NOTE H--LEASES

Capital Leases: The Hospital leases medical equipment under various capital lease agreements with interest rates ranging from 7.03% to 15.7%. A summary of the leased equipment, which is included in property, plant and equipment, at June 30 is as follows:

	2012	***2011***
Equipment acquired under capital leases	$ 290,975	$ 2,169,151
Less accumulated amortization	(196,496)	(1,851,470)
	$ 94,479	$ 317,681

The following is a schedule of the future minimum lease payments required under capital leases as of June 30, 2012:

Year Ending June 30,	
2013	$ 83,779
2014	9,899
Total minimum lease payments	93,678
Amount representing interest	(6,363)
Present value of minimum lease payments	$ 87,315

NOTE H--LEASES - Continued

Operating Leases: The Hospital also rents office space and equipment under various non-cancelable operating lease agreements with varying terms. Rent expense under operating lease agreements totaled approximately $3,910,000 and $4,230,000 for the years ended June 30, 2012 and 2011, respectively. Future minimum lease commitments for all significant non-cancelable operating leases are as follows:

Year Ending June 30,		
2013	$	2,469,210
2014		1,358,984
2015		1,231,141
2016		690,487
2017		65,295
	$	5,815,117

Leases with Physicians: The Hospital leases office space in its medical office buildings to physicians under non-cancelable operating leases with varying terms. Rental income under these lease agreements totaled approximately $1,210,000 and $1,090,000 for the years ended June 30, 2012 and 2011, respectively. Future minimum lease commitments to the Hospital for all significant non-cancelable operating leases are as follows:

Year Ending June 30,		
2013	$	879,948
2014		320,719
2015		1,764
	$	1,202,431

NOTE I--LEASED HEALTHCARE FACILITIES

Effective July 1, 2005, the Hospital entered into the first of two 5-year renewal options provided under a lease arrangement with the Board of Trustees of Wayne County General Hospital for the operation of several Wayne County healthcare facilities, including the county hospital, nursing home, ambulance service and medical office buildings. The lease also extends to all equipment, improvements, fixtures and related personal property. The annual lease expense under the first renewal consisted of a base rent of $175,000 and an annual capital improvement commitment of $175,000. Effective July 1, 2010, the lease was amended to exclude the operations of the nursing

NOTE I--LEASED HEALTHCARE FACILITIES - Continued

home. The annual lease expense, as amended, is $150,000 for the first year only and an annual capital improvement commitment of $200,000. The amended lease provides for two five-year renewal options which occur automatically unless the Hospital provides notice of its intent to terminate the lease at least 180 days in advance.

NOTE J--COMMITMENTS AND CONTINGENCIES

General Liability Claims: The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant losses to the Hospital.

Malpractice Liability Claims: The Hospital is subject to claims and suits arising in the ordinary course of business from services provided to patients. Losses against the Hospital are limited by the Tennessee Governmental Tort Liability Act to $300,000 for injury or death per person and $700,000 per occurrence. However, claims against healthcare practitioners are not subject to these limits. The Hospital maintains professional liability insurance on a claims made basis with limits of $1,000,000 per occurrence with a retention of $250,000 per claim and a $3,000,000 annual aggregate with a $750,000 annual aggregate retention. The Hospital has estimated and recorded a liability for reported claims totaling approximately $640,000 and $950,000 at June 30, 2012 and 2011, respectively. In management's opinion, the Hospital is currently not a party to any proceeding, the ultimate resolution of which will have a material adverse effect on the Hospital's results of operations or financial condition. The Hospital has not estimated any liability for incurred but not reported claims.

Workers' Compensation Claims: The Hospital is covered for workers' compensation claims through an insurance policy with a deductible of $500,000 per claim. Management has recorded an accrual for the estimated liability related to claims reported as of June 30, 2012 and 2011. The Hospital has not estimated any liability for incurred but not reported claims.

Healthcare Benefits: The Hospital maintains a partially self-insured healthcare plan to provide reimbursement for covered expenses incurred as a result of illness or injury to covered employees and dependents. Stop-loss insurance is purchased for annual claims per individual exceeding $250,000 in both 2012 and 2011 with a life-time maximum per individual totaling $750,000. The Hospital has estimated and recorded a liability for healthcare claims incurred but not yet reported totaling approximately $1,600,000 at both June 30, 2012 and 2011. Employees that retire after attaining age sixty and completing twenty years of service will receive continued coverage under the Hospital's health benefit program until they attain age sixty-five or become eligible for Medicare benefits. The estimated amount of retirement health benefits payable totaled approximately

NOTE J--COMMITMENTS AND CONTINGENCIES - Continued

$250,000 and $270,000 at June 30, 2012 and 2011, respectively, and is reported as a noncurrent liability in the combined financial statements. Due to uncertainties in the estimate, it is at least reasonably possible that management's estimate could change in 2013.

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under the provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers, such as the Medicare Recovery Audit Contractor Program. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that any amounts payable related to audits through the Medicare Recovery Audit Contractor program, or similar initiatives, have been estimated and recorded as Other Long-term Liabilities in the combined financial statements and therefore, any additional impact on the combined financial statements will not be significant. However, due to the uncertainties involved, management's estimate could change in the near future.

Healthcare Reform: In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act. The legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens by 2019 through a combination of public program expansion and private industry health insurance. Changes to existing TennCare coverage and payments are also expected to occur as a result of this legislation. Implementing regulations are generally required as a result of such legislation over a period of several years. Accordingly, the impact of any future regulations is not determinable.

NOTE K--FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that carrying value approximates fair value for the majority of the Hospital's financial assets and liabilities. The estimated fair value of bonds payable, which are general obligation bonds of Maury County, is $20,566,553 and $24,510,471 at June 30, 2012 and 2011, respectively.

NOTE K--FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Generally accepted accounting principles establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Hospital's investments are reported at fair value on a recurring basis based on Level 1 inputs at June 30, 2012 and 2011.

Other Information

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

To the Board of Trustees of
Maury Regional Hospital:

We have audited the combined financial statements of Maury Regional Hospital (the Hospital) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 10, 2012. 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.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's combined 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 combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits 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 and the Comptroller of the Treasury, Department of Audit of the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 10, 2012