

**DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR
COUNTY, TENNESSEE)**

Parsons, Tennessee

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2012 and 2011

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

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INDEPENDENT AUDITORS' REPORT

**To the Board of Trustees of
Decatur County General Hospital (a component unit of Decatur County, Tennessee):**

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Decatur County General Hospital (a component unit of Decatur County, Tennessee) as of June 30, 2012 and 2011, and the changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 13 to the financial statements, the Hospital has suffered recurring losses from operations, excluding this years Electronic Health Records incentive payment, and current liabilities exceed current assets. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013, on our consideration of Decatur County General Hospital's (a component unit of Decatur County, Tennessee) internal control over financial reporting and 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Decatur County General Hospital (a component unit of Decatur County, Tennessee) financial statements. The schedules on pages 25-31 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Johnson, Nickey & Meacham, P.C.

Chattanooga, Tennessee
February 8, 2013

Management's Discussion and Analysis

Our discussion and analysis of Decatur County General Hospital's (DCGH) financial performance provides an overview of the Hospital's financial activities for the year ended June 30, 2012. However, please refer to the financial statements for an in-depth understanding of this analysis.

For the fiscal year ended June 30, 2007, DCGH lost \$784,510. For the fiscal year ended June 30, 2008, DCGH lost \$1,488,212. The fiscal year ended June 30, 2009 was a loss of \$803,031. The fiscal year ended June 30, 2010 was a loss of \$310,547. The year ended June 30, 2011 was a loss of \$312,634. For this year ending, June 30, 2012, DCGH shows a net profit of \$1,473,705. Year 1 Meaningful Use for Electronic Medical Records made 2012 a profitable year. Management is determined to improve financial performance at DCGH.

New services and physicians have been introduced to this facility to improve access to area residents to better meet the healthcare needs of our community. The medical staff and the community have responded positively by utilizing the new services, all of which were made available to meet the needs of this community and enhance the healthcare provided by DCGH. Key financial highlights are as follows:

- DCGH attested to Year 2 Meaningful Use for Electronic Medical Records in September 2012. We anticipate receiving \$1,180,000 Medicare funds sometime in December 2012.
- Delta Grant #2 of \$228,000 was awarded in 2011. We received these funds in September 2011. This grant will fund electronic health records in the Emergency Room and positions DCGH for meaningful use funds in year 2.
- Phase 1 Meaningful Use makes us eligible for an additional \$880,000 Medicare funds in the 2014, as well as the possibility to attain \$1.7 million of Phase 2 Meaningful Use beginning in 2014 as well.
- PACS grant of \$285,000 was received in August 2010. The PACS system allows us to have state of the art technology; a full-time radiologist and it reduced expenses by \$42,000.
- The Nursing Department has implemented clinical hourly rounding and our HCAPHS scores are improving due to better customer service. With improved HCAPHS scores DCGH will earn pay for performance funds.
- Nurse Practitioner, Magnolia Medical Arts opened in April 2011. This clinician refers to DCGH approximately \$800,000 annualized for ancillary services.
- Hospitalist Program has increased quality, efficiency and HCAPHS scores.
- DCGH contracted with a recruitment firm to secure two Primary Care Physicians.
- Ambulance Service has been transferred back to Decatur County as of October 1, 2011. This reduced DCGH's expenses and should improve cash flow.
- Magnetic Resonance Imaging (MRI) was introduced to this facility in 2008, and has exceeded the Business Case Projection each week.
- Accredited Chest Pain Center.
- Joint Commission Accredited.
- Lab is CLIA and CAP Accredited.

The financial performance of DCGH is summarized below:

COMPARATIVE DATA

Statement of Net Assets –

	<u>June 30, 2012</u>	<u>Percent of Total</u>	<u>June 30, 2011</u>	<u>Percent of Total</u>	<u>June 30, 2010</u>	<u>Percent of Total</u>
Current and other assets	\$1,412,344	38.80%	\$1,429,027	37.00%	\$1,404,948	37.10%
Capital assets	<u>\$2,228,938</u>	<u>61.20%</u>	<u>\$2,426,713</u>	<u>63.00%</u>	<u>\$2,381,069</u>	<u>62.90%</u>
Total Assets	<u>\$3,641,282</u>	<u>100.00%</u>	<u>\$3,855,740</u>	<u>100.00%</u>	<u>\$3,786,017</u>	<u>100.00%</u>
Long-term liabilities	\$865,796	29.10%	\$906,627	20.50%	\$1,351,631	31.60%
Other liabilities	<u>\$2,105,966</u>	<u>70.90%</u>	<u>\$3,753,298</u>	<u>79.50%</u>	<u>\$2,925,936</u>	<u>68.40%</u>
Total Liabilities	<u>\$2,971,762</u>	<u>100.00%</u>	<u>\$4,659,925</u>	<u>100.00%</u>	<u>\$4,277,567</u>	<u>100.00%</u>
			<u>June 30, 2012</u>		<u>June 30, 2011</u>	<u>June 30, 2010</u>
Net assets						
Invested in capital assets, net of related debt			\$ 1,161,567	\$ 1,333,643	\$ 1,152,229	
Unrestricted Net Deficit			<u>\$ (492,047)</u>	<u>\$ (2,137,828)</u>	<u>\$ (1,643,780)</u>	
Total Net Assets (Deficit)			<u>\$ 669,520</u>	<u>\$ (804,185)</u>	<u>\$ (491,551)</u>	
Operating Revenue:						
Net patient revenue			\$ 8,797,307	\$ 8,855,860	\$ 9,897,858	
Other operating revenue			<u>\$ 2,268,076</u>	<u>\$ 555,117</u>	<u>\$ 269,466</u>	
Total Operating Revenue			<u>\$ 11,065,383</u>	<u>\$ 9,410,977</u>	<u>\$ 10,167,324</u>	
Operating Expenses:						
Salaries and benefits			\$ 5,148,394	\$ 5,319,911	\$ 5,814,448	
Medical supplies and drugs			\$ 815,293	\$ 951,177	\$ 962,872	
Other supplies			\$ 106,548	\$ 114,792	\$ 153,280	
Insurance			\$ 99,282	\$ 96,413	\$ 89,495	
Depreciation			\$ 452,801	\$ 479,260	\$ 427,561	
Other expenses			<u>\$ 2,771,791</u>	<u>\$ 2,660,791</u>	<u>\$ 2,965,776</u>	
Total Operating Expenses			<u>\$ 9,394,109</u>	<u>\$ 9,622,344</u>	<u>\$ 10,413,432</u>	
Operating Income (Loss)			<u>\$ 1,671,274</u>	<u>\$ (211,367)</u>	<u>\$ (246,108)</u>	
Nonoperating Revenues (Expenses):						
Interest income			\$ 60	\$ 451	\$ 261	
Interest expense			\$ (138,324)	\$ (101,718)	\$ (123,449)	
Gain on disposal of fixed assets			\$ (59,305)	\$ -	\$ 23,748	
Contribution from Decatur County			<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,000</u>	
Total Nonoperating Revenues (Expenses)			<u>\$ (197,569)</u>	<u>\$ (101,267)</u>	<u>\$ (64,440)</u>	
Excess (Deficit) of Revenues Over Expenses And Increase (Decrease) in Net Assets			<u>\$ 1,473,705</u>	<u>\$ (312,634)</u>	<u>\$ (310,548)</u>	
Net Assets:						
Beginning			<u>\$ (804,185)</u>	<u>\$ (491,551)</u>	<u>\$ (181,003)</u>	
Ending			<u>\$ 669,520</u>	<u>\$ (804,185)</u>	<u>\$ (491,551)</u>	

CAPITAL ASSETS AND DEBT ADMINISTRATION

Property and equipment net of accumulated depreciation decreased by \$197,775. The transfer of the Ambulance Service to Decatur County caused this decrease.

At June 30, 2012, the Hospital has long-term debt instruments totaling \$1,511,537. This is a reduction of \$113,444 from the previous year's debt of \$1,624,981. Of the \$1.5 million of debt, \$645,741 is considered current. The amount of \$887,795 is the total amount of debt (net of the loss on past bond refunding of \$7,205) currently held by Decatur County.

An amount of \$491,833 represents notes payable to a local bank secured by accounts receivable and certain long-term assets. The notes have an interest rate of 7%. We also have capital lease obligations that total \$131,909.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

The breakdown for operating revenue consists of approximately 27.2% inpatient and 72.8% outpatient. The inpatient revenue percentage is slightly higher compared to the prior year of 25.6%, but total patient revenue is lower.

Medicare and TennCare revenues make up 74% of the Hospital's total patient revenue. Commercial payers total 20% and private-pay represents 6%.

The budgeting process for the upcoming year beginning July 1, 2012 requires significant participation by facility department managers.

For the fiscal year beginning July 1, 2012, the Hospital projects \$8,697,627 in total net patient revenues. Operating expenses are budgeted at \$8,693,008. Recognizing other sources of income produces \$1,619,618 of income in excess of expenses. Included in the budgeted revenues are long-standing and previously mentioned new services of Magnetic Resonance Imaging (MRI), Sleep Center, the Hospitalist program, and nurse practitioner clinic.

CONTACTING THE DECATUR COUNTY GENERAL HOSPITAL MANAGEMENT

The financial report is designed to provide our citizens, customers, taxpayers and creditors with a general overview of the Hospital's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Accounting Department for the Decatur County General Hospital, 969 Tennessee Avenue South, Parsons, TN 38363.

The Decatur County General Hospital Board of Trustees consists of the following individuals:

- Will Quinn, Chairman
- Jerry Buchanan
- Emily Ferguson
- Mary Ivey
- Don Moore
- Robert Watkins

The Senior Management of Decatur County General Hospital consists of the following officers:

- John Carruth, Chief Executive Officer
- Daniel Lewis, Chief Financial Officer

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
BALANCE SHEETS
JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS:		
Cash	\$ 265,256	\$ 182,827
Patient accounts receivable, net of estimated uncollectibles of \$1,599,027 in 2012 and \$1,812,445 in 2011	873,506	978,180
Inventories	196,607	191,337
Prepaid expenses	74,844	47,336
Due from physicians	2,131	29,347
Total current assets	1,412,344	1,429,027
CAPITAL ASSETS:		
Land	63,196	81,696
Construction in progress	17,632	-
Depreciable capital assets	9,111,007	9,279,887
	9,191,835	9,361,583
Less accumulated depreciation	6,962,897	6,934,870
Total capital assets, net	2,228,938	2,426,713
Total assets	\$ 3,641,282	\$ 3,855,740

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

LIABILITIES AND NET ASSETS (DEFICIT)

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 645,741	\$ 718,354
Accounts payable	932,734	1,426,765
Accrued compensated absences	263,367	312,734
Other accrued expenses	32,564	239,248
Estimated third-party payor settlements	<u>231,560</u>	<u>1,056,197</u>
 Total current liabilities	 <u>2,105,966</u>	 <u>3,753,298</u>
 LONG-TERM DEBT , less current maturities shown above		
	<u>865,796</u>	<u>906,627</u>
 NET ASSETS (DEFICIT):		
Invested in capital assets net of related debt	1,161,567	1,333,643
Unrestricted	<u>(492,047)</u>	<u>(2,137,828)</u>
 Total net assets (deficit)	 <u>669,520</u>	 <u>(804,185)</u>
 Total liabilities and net assets (deficit)	 <u>\$ 3,641,282</u>	 <u>\$ 3,855,740</u>

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

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS (DEFICIT)
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUE:		
Net patient service revenue, net of provisions for bad debts of \$1,094,836 in 2012 and \$1,063,752 in 2011	\$ 8,797,307	\$ 8,855,860
Other revenue	2,268,076	555,117
Total operating revenue	11,065,383	9,410,977
OPERATING EXPENSES:		
Salaries and benefits	5,148,394	5,319,911
Medical supplies and drugs	815,293	951,177
Other supplies	106,548	114,792
Insurance	99,282	96,413
Depreciation	452,801	479,260
Other expenses	2,771,791	2,660,791
Total operating expenses	9,394,109	9,622,344
OPERATING INCOME (LOSS)	1,671,274	(211,367)
NONOPERATING REVENUES (EXPENSES):		
Interest income	60	451
Interest expense	(138,324)	(101,718)
Loss on disposal of capital assets	(59,305)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(197,569)	(101,267)
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES AND INCREASE (DECREASE) IN NET ASSETS	1,473,705	(312,634)
NET ASSETS:		
Beginning	(804,185)	(491,551)
Ending	\$ 669,520	\$ (804,185)

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

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 9,172,180	\$ 9,845,854
Cash payments to suppliers for goods and services	(5,304,959)	(5,318,890)
Cash payments to employees for services	(5,486,829)	(4,296,290)
Other revenue	2,268,076	555,117
Net cash provided by operating activities	648,468	785,791
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Payments on long-term debt	(97,162)	(149,488)
Interest paid	(83,435)	(47,204)
Net cash used in noncapital financing activities	(180,597)	(196,692)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(204,331)	(524,904)
Payments on bonds payable, net of contribution from Decatur County	(110,000)	(105,000)
Payments on long-term debt	(19,883)	(19,883)
Interest paid	(51,288)	(50,913)
Net cash used in capital and related financing activities	(385,502)	(700,700)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	60	451
Net cash provided by investing activities	60	451
NET INCREASE (DECREASE) IN CASH	82,429	(111,150)
CASH:		
Beginning	182,827	293,977
Ending	\$ 265,256	\$ 182,827

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

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	1,671,274	(211,367)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	452,801	479,260
Provision for bad debts	1,094,836	1,063,752
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(990,162)	(1,046,558)
Inventories	(5,270)	61,971
Prepaid expenses	(27,508)	(13,869)
Due from physicians	27,216	33,947
Increase (decrease) in:		
Accounts payable	(494,031)	354,590
Accrued compensated absences	(49,367)	(102,042)
Other accrued expenses	(206,684)	22,587
Estimated third-party payor settlements	(824,637)	143,520
	<u>\$ 648,468</u>	<u>\$ 785,791</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Refinance of long-term debt	<u>\$ -</u>	<u>\$ 626,640</u>
Capital lease	<u>\$ 110,000</u>	<u>\$ -</u>

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

**DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting entity -

Decatur County General Hospital (the Hospital) is a political subdivision of Decatur County, Tennessee (the County). The Hospital is a 40-bed community hospital located in Parsons, Tennessee, that provides health care services to patients primarily in the Decatur County area. The Decatur County Emergency Medical Services is considered a department of the Hospital and is included within these financial statements through November 2011. The Hospital is governed by a Board of Trustees under the authority of the Board of Commissions of the County. The Board of County Commissioners appoints the Board of Trustees of the Hospital and also have financial responsibility of the Hospital such as approval for the issuance of any bonds. Under accounting principles generally accepted in the United States of America, the Hospital constitutes a component unit of the County for financial reporting purposes.

Enterprise fund accounting -

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

Accounting standards -

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of estimates -

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

Net patient service revenue -

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Patient service revenue is net of contractual adjustments and policy discounts of approximately \$8,300,000 and \$9,600,000 for the years ended June 30, 2012 and 2011, respectively.

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Net patient service revenue (continued) -

Revenue from the Medicare and Medicaid programs accounted for approximately 57 and 5 percent and 48 and 6 percent for the years ended June 30, 2012 and 2011, respectively, of the Hospital's net patient service revenue. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Charity care -

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital estimates that the cost of providing the supplies and services under the charity care policy was approximately \$65,000 and \$13,000, for the year ended June 30, 2012 and 2011, respectively, based on applying an average cost to charge ratio to the charges for charity care.

Operating revenues and expenses -

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

Income taxes -

The Hospital, as a component unit of Decatur County, Tennessee, is exempt from federal and state income taxes.

Inventories -

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

Accounts receivable -

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

**DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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

Capital assets -

Assets with a useful life of greater than one year and a cost of greater than \$1,500 are recorded as capital assets and are stated at cost. Depreciation is calculated over the estimated useful lives using the straight-line method. Expenditures for maintenance, repairs, renewals and betterments that do not significantly extend the useful lives of the assets are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the books, and any resulting gain or loss is reflected in income for the period.

A summary of estimated useful lives follows -

	<u>Estimated Useful Lives</u>
Land improvements	5-15 years
Buildings and improvements	15-42 years
Machinery and equipment	3-38 years

Cash -

The Hospital considers currency on hand and demand deposits with financial institutions to be cash. The Hospital considers all highly liquid investments with original maturities of three months or less to be cash equivalents. State statutes authorize the Hospital to invest in obligations of the U.S. Treasury, bank certificates of deposit, state approved repurchase agreements, pooled investment funds, and state or local bonds, rated A or higher by a nationally recognized rating service. There were no cash equivalents at June 30, 2012 and 2011.

Risk management -

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

Net assets -

Net assets of the Hospital are classified in four components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. Restricted nonexpendable net assets equal the principal portion of permanent endowments. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted. There were no restricted assets at June 30, 2012 or 2011.

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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

Net assets (continued) -

	2012	2011
Property and equipment, net	\$ 2,228,938	\$ 2,426,713
Less -		
Current portion of long-term debt related to the acquisition of property and equipment	(201,575)	(186,623)
Long-term debt, excluding current portion relating to the acquisition of property and equipment	(865,796)	(906,627)
	\$ 1,161,567	\$ 1,333,643

(2) CASH:

For deposits, custodial risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. Collateral is required for demand deposits and certificates of deposit at 110% of all amounts not covered by a federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State of Tennessee and its subdivisions. All of the Hospital's cash and cash equivalents are insured or collateralized by securities held by the financial institutions' trust department in the Hospital's name.

The Hospital currently has no formal policy addressing custodial risk, except to comply with State statutes.

(3) NET PATIENT SERVICE REVENUE:

The Hospital received revenue under various third-party reimbursement programs which include Medicare, TennCare, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings and 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 2012 net patient service revenue increased \$380,013 due to prior years retroactive adjustments less than amounts previously estimated.

Medicare -

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for Medicare outpatient services under a Prospective Payment System (OPPS) based on clinical, diagnostic, and other factors. The Hospital

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(3) NET PATIENT SERVICE REVENUE (Continued):

Medicare (continued) -

is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and review by the Medicare fiscal intermediary.

TennCare -

On January 1, 1994, the Medicaid program for acute care services was replaced by a waiver program approved by CMS (Center for Medicare/Medicaid Services). Under the program, the Hospital enters into agreements with state contracted managed care organizations which reimburse the Hospital using various payment methodologies, such as prospectively determined rates per discharge, prospectively determined daily rates, and discounts from established charges.

Others -

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 per discharge, discounts from established charges, and prospectively determined daily rates.

(4) ELECTRONIC HEALTH RECORDS (EHR) INCENTIVE PAYMENTS:

The Hospital receives EHR incentive payments under the Medicare and Medicaid programs. To qualify for the EHR incentive payments, the Hospital must meet “meaningful use” criteria that becomes more stringent over time. The Hospital periodically submits and attests to its use of certified EHR technology, satisfaction of meaningful use objectives, and various patient data. These submissions generally include performance measures for each annual EHR reporting period (Federal fiscal year ending September 30th). The related EHR incentive payments are paid out over a four year transition schedule and are based upon an initial amount as adjusted for discharges, Medicare and Medicaid utilization using inpatient days multiplied by a factor of total charges excluding charity care to total charges, and a transitional factor that ranges from 100% in first payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is a reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measureable. During 2012 and 2011, the Hospital recognized \$1,847,505 and \$0, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Hospital recognizes income all at once, when the EHR reporting period has ended and compliance requirements have been met.

EHR incentive income is included in other revenue in the statements of revenues, expenses and changes in net assets (deficit). EHR incentive income is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were initially calculated.

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(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(4) ELECTRONIC HEALTH RECORDS (EHR) INCENTIVE PAYMENTS (Continued):

Receipt of these funds is subject to the fulfillment of certain obligations by the Hospital as prescribed by the program, subject to future audits and may be subject to repayment upon a determination of noncompliance.

(5) INVENTORIES:

Inventories on June 30, 2012 and 2011, consist of the following -

	<u>2012</u>	<u>2011</u>
Pharmacy	\$ 125,692	\$ 96,169
General supplies	46,162	53,245
Dietary	5,494	5,905
Laboratory	19,066	29,159
Radiology	193	2,355
EMS	<u>-</u>	<u>4,504</u>
	<u>\$ 196,607</u>	<u>\$ 191,337</u>

(6) CAPITAL ASSETS:

A summary of changes in capital assets follows -

	<u>2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>2012</u>
Land	\$ 81,696	\$ -	\$ 18,500	\$ 63,196
Land improvements	153,221	-	-	153,221
Building and improvements	2,787,525	5,500	53,807	2,739,218
Machinery and equipment	6,339,141	291,199	411,770	6,218,570
Construction in progress	<u>-</u>	<u>17,632</u>	<u>-</u>	<u>17,632</u>
Totals at historical cost	<u>9,361,583</u>	<u>314,331</u>	<u>484,077</u>	<u>9,191,837</u>
Less accumulated depreciation:				
Land improvements	153,222	-	-	153,222
Buildings and improvements	1,703,386	89,821	43,541	1,749,666
Machinery and equipment	<u>5,078,262</u>	<u>362,980</u>	<u>381,231</u>	<u>5,060,011</u>
Total accumulated depreciation	<u>6,934,870</u>	<u>452,801</u>	<u>424,772</u>	<u>6,962,899</u>
Capital assets, net	<u>\$ 2,426,713</u>	<u>\$ (138,470)</u>	<u>\$ 59,305</u>	<u>\$ 2,228,938</u>

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(6) CAPITAL ASSETS (Continued):

	<u>2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>2011</u>
Land	\$ 81,696	\$ -	\$ -	\$ 81,696
Land improvements	153,221	-	-	153,221
Building and improvements	2,767,475	20,050	-	2,787,525
Machinery and equipment	<u>5,834,287</u>	<u>504,854</u>	<u>-</u>	<u>6,339,141</u>
Totals at historical cost	<u>8,836,679</u>	<u>524,904</u>	<u>-</u>	<u>9,361,583</u>
Less accumulated depreciation:				
Land improvements	153,200	22	-	153,222
Buildings and improvements	1,610,334	93,052	-	1,703,386
Machinery and equipment	<u>4,692,076</u>	<u>386,186</u>	<u>-</u>	<u>5,078,262</u>
Total accumulated depreciation	<u>6,455,610</u>	<u>479,260</u>	<u>-</u>	<u>6,934,870</u>
Capital assets, net	<u>\$ 2,381,069</u>	<u>\$ 45,644</u>	<u>\$ -</u>	<u>\$ 2,426,713</u>

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

(7) LONG-TERM DEBT:

	<u>2012</u>	<u>2011</u>
Bonds payable	\$ 895,000	\$ 1,005,000
Less: deferred loss on bond refunding	(7,205)	(10,806)
Capital lease obligation payable in monthly installments of \$1,934 including interest at 6.309% until June 2013, collateralized by leased equipment	21,909	41,792
Note payable to bank, payable in various monthly installments including various interest rates that increase each year, with final payment equal to entire remaining unpaid principal balance and interest, until March 2013, secured by accounts receivable and certain equipment	491,833	588,995

**DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

(7) LONG-TERM DEBT (Continued):

Capital lease obligation payable in monthly installments of \$1,833 including zero interest until June 2017, collateralized by leased equipment

	110,000	-
	1,511,537	1,624,981
Less current maturities	645,741	718,354
	\$ 865,796	\$ 906,627

Hospital Revenue and Tax Refunding and Improvement Bond Series 1999, dated April 1, 1999, were issued for the purpose of (a) advance refunding the Series 1994 bonds, and (b) financing the construction of additions to and equipping of the Hospital. They are due in annual principal installments through 2019 and semiannual installments of interest from 4.4% to 5.4%. Hospital revenues are the source of payment. The Hospital is responsible to remit funds to the County in amounts that are sufficient to cover the scheduled debt service payments. The Hospital incurred a loss on bond refunding related to these notes that will be amortized over the life of the bonds. The deferred loss has a balance of \$7,205 and \$10,806 as of June 30, 2012 and 2011, respectively.

The capital leased assets have a cost of \$173,276 and \$63,276 and a carrying value of \$125,387 and \$38,313 at June 30, 2012 and 2011, respectively.

Scheduled payments on long-term debt are as follows -

Year ending June 30	Bonds and notes payable		Capital lease	
	Principal	Interest	Principal	Interest
2013	\$ 601,833	\$ 61,661	\$ 43,908	\$ 774
2014	115,000	38,120	22,000	-
2015	120,000	32,888	22,000	-
2016	125,000	23,703	22,000	-
2017	135,000	21,370	22,001	-
2018-19	290,000	22,990	-	-
	1,386,833	\$ 200,732	\$ 131,909	\$ 774
Deferred loss on bond refunding	(7,205)			
	\$ 1,379,628			

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(7) LONG-TERM DEBT (Continued):

Activity for long-term debt for 2012 and 2011 follows -

	<u>2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>2012</u>	<u>Amount due within one year</u>
Bonds payable	\$ 1,005,000	\$ -	\$ 110,000	\$ 895,000	\$ 110,000
Deferred loss on bond refunding	(10,806)	3,601	-	(7,205)	-
Notes payable	588,995	-	97,162	491,833	491,833
Capital lease	<u>41,792</u>	<u>110,000</u>	<u>19,883</u>	<u>131,909</u>	<u>43,908</u>
Total long-term debt	<u>\$ 1,624,981</u>	<u>\$ 113,601</u>	<u>\$ 227,045</u>	<u>\$ 1,511,537</u>	<u>\$ 645,741</u>

	<u>2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>2011</u>	<u>Amount due within one year</u>
Bonds payable	\$ 1,110,000	\$ -	\$ 105,000	\$ 1,005,000	\$ 110,000
Deferred loss on bond refunding	(14,407)	3,601	-	(10,806)	-
Notes payable	738,483	-	149,488	588,995	588,995
Capital lease	<u>61,675</u>	<u>-</u>	<u>19,883</u>	<u>41,792</u>	<u>19,359</u>
Total long-term debt	<u>\$ 1,895,751</u>	<u>\$ 3,601</u>	<u>\$ 274,371</u>	<u>\$ 1,624,981</u>	<u>\$ 718,354</u>

(8) COMPENSATED ABSENCES:

The Hospital provides its full-time and part-time employees with paid days off for holiday, vacation, sick leave, and bereavement absences. The paid days off begin accruing immediately, however, it is not available to the employee until they have been employed for a six month probationary period. If an employee terminates employment before one year, the paid days off are forfeited. Paid days off is based on the schedule which follows. Such days may be taken only after the employee has earned them. An employee may carry forward up to 240 hours with less than 5 years of employment and up to 320 hours with 5 or more years of employment. Such liabilities have been accrued in the accompanying statement of net assets.

A summary of accruing rates follows -

<u>Full time employees'</u>		<u>Part-time employees'</u>	
<u>Years of service</u>	<u>Hours earned per year</u>	<u>Years of service</u>	<u>Hours earned per hour</u>
0-1	160	0-1	0.07712
2-4	194	2-4	0.09347
5-14	235	5-14	0.11300
15 or more	254	15 or more	0.12200

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(9) PENSION PLAN:

The Hospital established an employee retirement plan effective January 1, 1988. The plan has been amended at various times since 1988 and is maintained on a calendar year basis. The following description of the Decatur County General Hospital Retirement Matching Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

The Plan is a defined contribution plan which was adopted to provide retirement benefits for employees of the Hospital. The Plan covers substantially all full-time employees of the Hospital who have completed six months of service (the participants). The Plan is subject to the provision for the Employee Retirement Income Security Act of 1974 (ERISA).

Participants may voluntarily make qualified retirement contributions to the Plan which are deductible by the participants for federal income tax purposes under Section 457(f) of the Internal Revenue Code (IRC).

In order to participate, employees must make a minimum contribution of 1% of compensation. Participant contributions are permitted up to 100% of compensation.

The Hospital may make matching contributions equal to a discretionary percentage, as determined annually by the Hospital's Retirement Trust Committee. The Hospital made a matching contribution of 3% for the years ending June 30, 2012 and 2011, respectively. The Hospital did suspend matching contribution in October 2010, but resumed again in January 2011. The Hospital contributions for the years ended June 30, 2012 and 2011 were \$54,448 and \$39,606. Benefits of \$269,589, established when the plan was adopted, are being amortized over 43 years, based on the expected future service periods of the original eligible employees.

Hospital and participant contributions may not exceed the maximum amount deductible for federal income tax purposes.

(10) RELATED PARTY TRANSACTIONS:

The County has an understanding with the Hospital to remit funds to the County that will pay all amounts required to service the 1999 bonds. At June 30, 2012 and 2011, the Hospital was current with its required principal and interest due to the County. At June 30, 2011, the Hospital had approximately \$69,000 in retired bond payments due to the County. This was paid during the year ended June 30, 2012.

**DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

(11) COMMITMENTS AND CONTINGENCIES:

Operating leases -

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

The Hospital leases various equipment under operating lease agreements. Rent expense was \$82,832 and \$82,392 in 2012 and 2011, respectively.

A summary of future minimum payments under these leases as of June 30, 2012 is as follows –

Year ending June 30		
2013	\$	69,669
2014		21,047
2015		<u>4,680</u>
	<u>\$</u>	<u>95,396</u>

Professional liability insurance -

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

Management agreement -

A management agreement between the Hospital and Quorum Health Resources, Inc., (Quorum) was signed on August 23, 2011, with effective dates of August 25, 2011 through August 24, 2013. The annual fee is \$120,000 for the contract year beginning August 25, 2011, increases annually by a factor equal to the greater of five percent or the percentage increase in the Consumer Price Index, and is payable in equal monthly installments. Management services in addition to the fixed fee services are provided by Quorum as needed at varying rates. The total management fees paid to Quorum were \$122,841 and \$130,277 in 2012 and 2011, respectively.

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

Litigation -

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

**DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

(12) CONCENTRATIONS OF CREDIT RISK:

The Hospital is located in Decatur County, Tennessee. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2012 and 2011 follows -

	<u>2012</u>	<u>2011</u>
Medicare	28%	36%
Medicaid/TennCare	9%	9%
Blue Cross/Commercial	15%	24%
Private Pay	48%	31%

(13) GOING CONCERN MATTERS:

As indicated in the accompanying financial statements, the Hospital has incurred losses from operations and current liabilities exceed its current assets. As of June 30, 2012, operating income included \$1,847,505 of EHR incentive payments (as discussed in Note 4). Without this the Hospital would have had a \$176,231 operating loss. These factors, create an uncertainty about the Hospital's ability to continue as a going concern. Management of the Hospital is working to increase patient occupancy, assessing the feasibility of instituting new ancillary services, and working to reduce expenses through reduction of workforce. The ability of the Hospital to continue as a going concern is depended on the success of these plans. The financial statements do not include any adjustments that might be necessary if the Hospital is unable to continue as a going concern.

(14) RECLASSIFICATIONS:

Certain items in the 2011 financial statements have been reclassified to conform with the current year presentation.

(15) SUBSEQUENT EVENTS:

For the year ended June 30, 2012, the Hospital has evaluated subsequent events for potential recognition and disclosure through February 8, 2013, the date through which these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
SCHEDULE 1 - SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
NURSING SERVICES:		
Nursing administration	\$ 18,716	\$ 85,936
Medical/surgical nursing	1,098,993	1,046,926
Surgery	63,860	65,670
Emergency room	<u>436,300</u>	<u>415,773</u>
Total nursing services	<u>1,617,869</u>	<u>1,614,305</u>
OTHER PROFESSIONAL SERVICES:		
Outpatient clinic	68,414	85,303
Physician clinics	282,247	84,992
Respiratory	159,792	169,410
School nurse program	58,090	60,436
Laboratory	397,025	406,167
Radiology	429,304	398,951
Pharmacy	179,606	154,634
Biomed information systems	42,144	45,703
Physical therapy	128,573	150,657
EMS	<u>181,111</u>	<u>639,639</u>
Total other professional services	<u>1,926,306</u>	<u>2,195,892</u>
GENERAL SERVICES:		
IT software	78,754	68,945
Medical records	142,667	146,729
Dietary	133,498	114,580
Maintenance	78,767	80,970
Environmental services	113,532	91,868
Purchasing	56,270	79,684
JCAHO/CQI/risk management	149,111	153,846
Community relations	<u>17,384</u>	<u>23,818</u>
Total general services	<u>769,983</u>	<u>760,440</u>

	<u>2012</u>	<u>2011</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Human resources	52,398	68,626
General accounting	115,204	108,735
Business office	337,221	304,646
Administration	328,091	199,619
Physicians billing	<u>1,322</u>	<u>67,648</u>
 Total administrative and fiscal services	 <u>834,236</u>	 <u>749,274</u>
 TOTAL SALARIES AND BENEFITS	 <u>\$ 5,148,394</u>	 <u>\$ 5,319,911</u>

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
SCHEDULE 2 - MEDICAL SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
NURSING SERVICES:		
Nursing administration	\$ -	\$ 12
Medical/surgical nursing	22,232	52,524
Surgery	78,741	98,090
Emergency room	24,607	24,403
 Total nursing services	 125,580	 175,029
OTHER PROFESSIONAL SERVICES:		
Outpatient clinic	3,644	3,853
Physician clinics	7,148	1,975
Respiratory	16,252	8,899
School nurse program	-	476
IV solutions	54,502	47,898
Laboratory	259,782	261,109
Radiology	12,442	19,796
Pharmacy	331,084	405,494
Physical therapy	1,069	3,061
EMS	3,790	23,587
 Total other professional services	 689,713	 776,148
 TOTAL MEDICAL SUPPLIES AND DRUGS	 \$ 815,293	 \$ 951,177

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
SCHEDULE 3 - OTHER SUPPLIES
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
NURSING SERVICES:		
Nursing administration	\$ 38	\$ 2,318
Medical/surgical nursing	499	4,609
Surgery	1,077	635
Emergency room	<u>4,386</u>	<u>3,432</u>
Total nursing services	<u>6,000</u>	<u>10,994</u>
OTHER PROFESSIONAL SERVICES:		
Central supply	1,675	-
Outpatient clinic	2,312	1,621
Physician clinics	1,819	903
Respiratory	5,384	6,902
IV solutions	104	143
Laboratory	3,414	3,796
Radiology	6,885	5,119
Pharmacy	1,738	2,711
Biomed information systems	711	22
Physical therapy	277	332
EMS	<u>10</u>	<u>1,053</u>
Total other professional services	<u>24,329</u>	<u>22,602</u>
GENERAL SERVICES:		
IT software	237	26
Medical records	1,018	810
Dietary	45,552	43,823
Maintenance	8,874	15,263
Environmental services	14,862	14,280
Laundry and linen	32	17
Purchasing	271	644
JCAHO/CQI/risk management	329	589
Community relations	<u>371</u>	<u>297</u>
Total general services	<u>71,546</u>	<u>75,749</u>

	<u>2012</u>	<u>2011</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Human resources	603	1,053
Finance administration	2	17
General accounting	1,553	906
Business office	1,974	2,551
Administration	541	901
Physicians billing	<u>-</u>	<u>19</u>
 Total administrative and fiscal services	 <u>4,673</u>	 <u>5,447</u>
 TOTAL OTHER SUPPLIES	 <u>\$ 106,548</u>	 <u>\$ 114,792</u>

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
SCHEDULE 4 - OTHER EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
NURSING SERVICES:		
Nursing administration	\$ 220	\$ 89
Medical/surgical nursing	8,387	4,275
Surgery	60,583	36,893
Emergency room	<u>597,042</u>	<u>583,259</u>
Total nursing services	<u>666,232</u>	<u>624,516</u>
 OTHER PROFESSIONAL SERVICES:		
Central supply	435	-
Outpatient clinic	5,859	5,039
Physician clinics	20,256	8,041
Respiratory	6,094	11,374
Hospitalist	197,281	159,291
School nurse program	40	-
Laboratory	90,361	88,421
Radiology	602,166	652,490
Pharmacy	14,285	54,287
Biomed information systems	33,485	30,426
Physical therapy	9,043	13,159
EMS	<u>31,000</u>	<u>70,235</u>
Total other professional services	<u>1,010,305</u>	<u>1,092,763</u>
 GENERAL SERVICES:		
IT software	231,042	158,488
Medical records	48,056	34,169
Dietary	6,563	3,749
Maintenance	198,459	151,133
Environmental services	7,585	6,220
Laundry/linen	47,205	52,712
Purchasing	4,748	5,267
JCAHO/CQI/risk management	15,189	43,389
Community relations	<u>6,252</u>	<u>7,616</u>
Total general services	<u>565,099</u>	<u>462,743</u>

	<u>2012</u>	<u>2011</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Human resources	19,140	26,040
Finance administration	61,645	55,408
General accounting	32,006	87,178
Business office	93,677	105,329
Administration	323,453	188,759
Physicians billing	<u>234</u>	<u>18,055</u>
 Total administrative and fiscal services	 <u>530,155</u>	 <u>480,769</u>
 TOTAL OTHER EXPENSES	 <u>\$ 2,771,791</u>	 <u>\$ 2,660,791</u>



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

**To the Board of Trustees of
Decatur County General Hospital (a component unit of Decatur County, Tennessee):**

We have audited the financial statements of Decatur County General Hospital (a component unit of Decatur County, Tennessee) (the Hospital), as of and for the year ended June 30, 2012, and have issued our report thereon dated February 8, 2013, which included an explanatory paragraph addressing going concern issues with the Hospital. 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

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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 solely for the information and use of management, Board of Trustees, the State of Tennessee, and the Decatur County Government and is not intended to be and should not be used by anyone other than these specified parties.

Johnson, Nicky & Meucham, P.C.

Chattanooga, Tennessee
February 8, 2013