

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

**Dayton, Tennessee**

**FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**Years Ended June 30, 2012 and 2011**

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

# TABLE OF CONTENTS

	<b><u>P a g e</u></b>
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b>	ii-vii
<b>INDEPENDENT AUDITORS’ REPORT</b>	1-2
<b>FINANCIAL STATEMENTS:</b>	
Balance sheets	3-4
Statements of revenues, expenses, and changes in net assets	5
Statements of cash flows	6-7
Notes to financial statements	8-19
<b>SUPPLEMENTARY INFORMATION:</b>	
Schedule 1 – Net patient service revenue	21-22
Schedule 2 – Other operating revenue	23
Schedule 3 – Salaries and benefits	24
Schedule 4 - Medical supplies and drugs	25
Schedule 5 – Other supplies	26
Schedule 6 – Other expenses	27
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINACIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	28-29

**RHEA MEDICAL CENTER  
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE  
MANAGEMENT’S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Rhea Medical Center’s (the Medical Center’s) financial performance provides an overview of the Medical Center’s financial activities for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the Medical Center’s financial statements, which begin on page 3.

**Financial Highlights**

- In October 2011 the Medical Center received \$1,711,226 from the Bureau of TennCare. The purpose of these funds was to assist with the costs of providing uncompensated care. The Medical Center did not receive a payment in 2012.
- The Medical Center’s net assets increased in each of the past two years with a \$665,156 or 3% increase in 2012 and a \$3,033,542 or 17% increase in 2011. The Medical Center reported operating income in both 2012 and 2011. Operating revenues decreased 11% from 2011, while operating expenses decreased 1% in 2012.

**Using This Annual Report**

The Medical Center’s financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center.

**The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets**

One of the most important questions asked about the Medical Center’s finances is, “Is the Medical Center as a whole better or worse off as a result of the year’s activities?” The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Medical Center’s resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center’s net assets and changes in them. Net assets, which is the difference between assets and liabilities, is one way to measure the Medical Center’s financial health, or financial position. Over time, increases or decreases in the Medical Center’s net assets indicate whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Medical Center’s patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

**RHEA MEDICAL CENTER  
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as “Where did cash come from?”, “What was cash used for?” and “What was the change in cash balance during the reporting period?”

**The Medical Center's Net Assets**

The Medical Center's net assets are the difference between its assets and liabilities reported in the Balance Sheet on pages 3 and 4. The Medical Center's net assets increased in each of the past two years with a \$665,156 or 3% increase in 2012 and a \$3,033,542 or 17% increase in 2011. See Exhibit One for an illustration.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$20,081,084	\$16,843,706	\$13,803,489
Capital assets, net,	26,683,276	27,681,120	28,889,766
Non-current cash and investments	2,168,211	3,178,877	1,508,538
Other assets	<u>463,411</u>	<u>479,271</u>	<u>678,147</u>
Total assets	<u>\$49,395,982</u>	<u>\$48,182,974</u>	<u>\$44,879,940</u>
Liabilities			
Current liabilities	\$ 6,863,590	\$ 5,529,866	\$ 4,290,674
Long-term debt outstanding	<u>21,203,000</u>	<u>21,988,872</u>	<u>22,958,572</u>
Total liabilities	<u>\$28,066,590</u>	<u>\$27,518,738</u>	<u>\$27,249,246</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 4,692,493	\$ 4,715,587	\$ 4,965,263
Unrestricted	16,636,899	15,705,304	12,423,893
Unrestricted-Board Designated	<u>-</u>	<u>243,345</u>	<u>241,538</u>
Total Net Assets	<u>\$21,329,392</u>	<u>\$20,664,236</u>	<u>\$17,630,694</u>

Assets increased by \$1,213,008 or 3% during 2012. A significant component of the change in the Medical Center's assets is the increase of \$4,522,876 in cash. (See Note 2 to the financial statements for an explanation of the Medical Center's deposits and investments). The increase in cash was a result of available cash generated from operations and the sales and maturities of investments. (See Statements of

**RHEA MEDICAL CENTER**  
**A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Cash Flows for details of cash generated from operations and investing activities). The increase in cash was partially offset by a \$1,798,637 decrease in investments and a \$997,844 decrease in capital assets. Higher depreciation expense related to the new facility and the associated new equipment increased accumulated depreciation by \$1,686,899 (See Note 1 to the financial statements for an explanation of the Medical Center's capitalization policies and Note 6 for a detail of capital assets). Liabilities increased by \$547,852. Current liabilities increased \$1,333,724 due to a \$1,503,162 increase in estimated third-party settlements (See Note 3 to the financial statements for a summary of the basis of reimbursement with major third-party payors). The long-term debt portion of liabilities decreased by \$785,872 due to the maturing of debt (See Note 8 to the financial statements for a detail of long-term debt).

**Operating Results and Changes in the Medical Center's Net Assets**

The Medical Center's net assets increased by \$665,156 or 3% in 2012 and \$3,033,542 or 17% in 2011, as shown in Exhibit 2. The increase in 2012 is primarily due to the increases discussed above. Operating income decreased in 2012 by \$2,079,819 or 75% and increased in 2011 by \$2,351,960 or 543%, respectively.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES:</b>			
Net patient service revenue	\$17,919,647	\$20,103,590	\$17,623,501
Other revenue	<u>710,223</u>	<u>737,941</u>	<u>586,502</u>
<b>TOTAL OPERATING REVENUES</b>	<u>18,629,870</u>	<u>20,841,531</u>	<u>18,210,003</u>
<b>OPERATING EXPENSES:</b>			
Salaries and benefits	9,227,163	9,331,931	9,301,278
Medical supplies and drugs	1,756,323	1,581,788	1,652,988
Other supplies	376,727	389,413	376,749
Insurance	248,077	204,860	198,904
Depreciation	1,693,147	1,821,871	1,967,212
Other expenses	<u>4,623,172</u>	<u>4,726,588</u>	<u>4,279,752</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>17,924,609</u>	<u>18,056,451</u>	<u>17,776,883</u>
<b>OPERATING INCOME</b>	<u>705,261</u>	<u>2,785,080</u>	<u>433,120</u>

**RHEA MEDICAL CENTER**  
**A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**NONOPERATING REVENUES (EXPENSES)**

Gain on sale of Nursing Home	\$ -	\$ -	\$ 1,308,815
Interest income	84,560	52,425	15,115
Interest expense	(180,312)	(209,224)	(212,125)
Loss on sale of investments	(14,153)	(13,315)	-
Noncapital contribution	32,100	65,050	26,000
Noncapital grants	<u>20,000</u>	<u>15,100</u>	<u>35,800</u>

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

<u>(57,805)</u>	<u>(89,964)</u>	<u>1,173,605</u>
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**EXCESS OF REVENUES OVER EXPENSES**

	647,456	2,695,116	1,606,725
Unrealized gain (loss) on investments	1,700	(24,574)	-
Transfer to Rhea County, Tennessee	-	-	(500,000)
Capital Grants	<u>16,000</u>	<u>363,000</u>	<u>-</u>

**INCREASE IN NET ASSETS**

	665,156	3,033,542	1,106,725
Net assets at beginning of year	<u>20,664,236</u>	<u>17,630,694</u>	<u>16,523,969</u>
Net assets at end of year	<u>\$21,329,392</u>	<u>\$20,664,236</u>	<u>\$17,630,694</u>

**Operating Income**

The first component of the overall change in the Medical Center’s net assets is its operating income – generally the difference between net patient service revenues and the expenses incurred to perform those services. In the past two years, the Medical Center has reported operating income.

The primary components of the operating income in 2012 are:

- Net patient service revenue decreased by \$2,183,943 or 11%. Patient revenue before deductions increased by \$733,005 or 2%. The increase was due to a 174 or 24% increase in observation admissions. The increases in patient revenue were offset by contractual adjustments and bad debts (See Note 3 to the financial statements for a summary of the basis of reimbursements with major third-party payors). Contractual adjustments increased \$2,788,485 or 15%. In 2011 a onetime payment from the TennCare Bureau reduced contractual adjustments by \$1,711,226. Excluding this onetime payment from the prior year, current year adjustments increased \$1,077,259 or 5%. The increase in observation admissions and revenue, which has higher deduction percentages, has resulted in the growth of contractual adjustments. Bad debt increased by \$128,463 or 3%. The increase in bad debt is due to current economic conditions and its impact on the number of patients without insurance.

**RHEA MEDICAL CENTER  
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

- Other revenue decreased by \$27,718 or 4%. An insurance premium rebate of \$68,867 is included in other revenue. Rental revenue decreased \$57,980 or 10% due to a physician moving out of the professional building and less space being rented in the Physician's Annex.
- Medical supplies and drugs increased \$174,535 or 11%. During the year, \$121,273 of non-capitalized minor equipment was purchased. Surgical instruments totaling \$71,018 were included in this amount.
- Depreciation and amortization expense decreased \$128,724 due to several capital items that were fully depreciated in 2011. (See Note 1 to financial statements for an explanation of the Medical Center's capitalization policies and Note 6 for a detail of capital assets).

**Nonoperating Revenues**

Capital grants decreased \$347,000. In 2011 capital grants in the amount of \$256,500 and \$86,500 were received for the purchase of an electronic medical record system and a digital mammography machine respectively.

**The Medical Center's Cash Flows**

Changes in the Medical Center's cash flows are consistent with changes in prepaid assets; property, plant, and equipment, net; repayments of debt; operating income and nonoperating income, as discussed earlier.

**Capital Asset and Debt Administration**

Capital Assets. As of June 30, 2012, the Medical Center had \$26,683,276 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. During fiscal year 2012, the Medical Center purchased equipment and other depreciable assets of \$689,054 (reduced by \$1,686,899 in related depreciation expense on the balance sheet).

Debt. In 2007 the Medical Center entered into a capital lease to purchase a MRI machine. The MRI lease has an outstanding principal balance of \$29,783 at June 30, 2012. In 2006, the Medical Center obtained funding of \$24,100,000 to construct a replacement facility as detailed in Note 8 to the financial statements.

**RHEA MEDICAL CENTER  
A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Other Economic Factors**

The current economic situation that the country is facing could have a negative impact on the local economy. If companies in Rhea County lay off employees then the Medical Center could see an increase in uninsured patients which would lead to higher bad debt expense and charity care.

Due to both the national and local shortages of healthcare professionals, the Medical Center faces stiff competition in retaining and the recruitment of new employees. Management focuses on this issue in a number of ways including by meeting with local healthcare education programs to encourage student outplacement, offering scholarships to students in healthcare careers, monitoring compensation trends and adjusting compensation as necessary.

**Contacting the Medical Center's Financial Management**

This financial report is designed to provide our patients, suppliers, creditors and other stakeholders with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. Any questions about this report or requests for additional financial information should be directed to Rhea Medical Center, Department of Finance, 9400 Rhea County Highway, Dayton, Tennessee 37321.

Rhea Medical Center Board of Directors consists of the following individuals:

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

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

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



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Rhea Medical Center (a component unit of Rhea County, Tennessee) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Rhea Medical Center's (a component unit of Rhea County, Tennessee) management. Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rhea Medical Center (a component unit of Rhea County, Tennessee) as of June 30, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2012, on our consideration of Rhea Medical Center's (a component unit of Rhea County, Tennessee) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages ii through vi 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 historical 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 about the methods of preparing the information and comparing the information for consistency with management's responses 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 taken as a whole. The schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of Rhea Medical Center (a component unit of Rhea County, Tennessee). Such information is the responsibility of management and was derived from and relates 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, Wickey & Meucham, P.C.*

November 26, 2012

**RHEA MEDICAL CENTER**  
**(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)**  
**BALANCE SHEETS**  
**JUNE 30, 2012 AND 2011**

**ASSETS**

	<b>2012</b>	<b>2011</b>
<b>CURRENT ASSETS:</b>		
Cash	\$ 10,978,190	\$ 6,455,314
Patient accounts receivable, net of estimated uncollectibles of \$1,940,000 in 2012 and \$1,970,000 in 2011	2,516,703	2,925,607
Investments	5,640,283	6,428,254
Inventories	537,449	589,835
Prepaid expenses	71,883	49,876
Other current assets	336,576	394,820
Total current assets	20,081,084	16,843,706
 <b>NONCURRENT CASH AND INVESTMENTS:</b>		
Internally designated for capital acquisitions	-	243,345
Investments	2,168,211	2,935,532
	2,168,211	3,178,877
 <b>CAPITAL ASSETS:</b>		
Land	2,362,513	2,362,513
Depreciable assets, net of accumulated depreciation	23,822,828	25,317,707
Construction in progress	497,935	900
	26,683,276	27,681,120
 <b>OTHER ASSETS:</b>		
Bond issuance costs	131,211	137,459
Other assets	332,200	341,812
	463,411	479,271
	\$ 49,395,982	\$ 48,182,974

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

**LIABILITIES AND NET ASSETS**

	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 787,783	\$ 976,661
Accounts payable	780,616	794,255
Accrued payroll	407,638	366,660
Other accrued expenses	340,777	348,676
Estimated third-party payor settlements	<u>4,546,776</u>	<u>3,043,614</u>
Total current liabilities	<u>6,863,590</u>	<u>5,529,866</u>
<b>LONG-TERM DEBT</b> , net of current maturities	<u>21,203,000</u>	<u>21,988,872</u>
	<u>28,066,590</u>	<u>27,518,738</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	4,692,493	4,715,587
Unrestricted	16,636,899	15,705,304
Unrestricted - board designated	<u>-</u>	<u>243,345</u>
	<u>21,329,392</u>	<u>20,664,236</u>
	<u>\$ 49,395,982</u>	<u>\$ 48,182,974</u>

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

**RHEA MEDICAL CENTER**  
**(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)**  
**STATEMENTS OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES:</b>		
Net patient service revenue	\$ 17,919,647	\$ 20,103,590
Other revenue	710,223	737,941
	<u>18,629,870</u>	<u>20,841,531</u>
<b>OPERATING EXPENSES:</b>		
Salaries and benefits	9,227,163	9,331,931
Medical supplies and drugs	1,756,323	1,581,788
Other supplies	376,727	389,413
Insurance	248,077	204,860
Depreciation and amortization	1,693,147	1,821,871
Other expenses	4,623,172	4,726,588
	<u>17,924,609</u>	<u>18,056,451</u>
<b>OPERATING INCOME</b>	<u>705,261</u>	<u>2,785,080</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>		
Interest income	84,560	52,425
Interest expense	(180,312)	(209,224)
Loss on sale of investments	(14,153)	(13,315)
Noncapital contribution	32,100	65,050
Noncapital grants	20,000	15,100
	<u>(57,805)</u>	<u>(89,964)</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	647,456	2,695,116
Unrealized gain (loss) on investments	1,700	(24,574)
Capital grants	16,000	363,000
<b>INCREASE IN NET ASSETS</b>	665,156	3,033,542
<b>NET ASSETS, beginning of year</b>	<u>20,664,236</u>	<u>17,630,694</u>
<b>NET ASSETS, end of year</b>	<u>\$ 21,329,392</u>	<u>\$ 20,664,236</u>

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

**RHEA MEDICAL CENTER**  
**(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third-party payors	\$ 15,597,615	\$ 17,463,172
Cash payments to suppliers for goods and services	(4,713,915)	(4,714,931)
Cash payments to employees for services	(7,165,774)	(7,530,283)
Other revenue	<u>710,223</u>	<u>737,941</u>
Net cash provided by operations	<u>4,428,149</u>	<u>5,955,899</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Noncapital grants and contributions	<u>52,100</u>	<u>80,150</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital grants	16,000	363,000
Interest paid on debt	(180,312)	(209,224)
Purchase of property and equipment	(689,055)	(574,757)
Payments on long-term debt	<u>(974,750)</u>	<u>(958,969)</u>
Net cash used by capital and related financing activities	<u>(1,828,117)</u>	<u>(1,379,950)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received	84,560	52,425
Purchases of investments	(4,642,070)	(6,296,144)
Sales and maturities of investments	<u>6,428,254</u>	<u>1,295,925</u>
Net cash provided (used) by investing activities	<u>1,870,744</u>	<u>(4,947,794)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	4,522,876	(291,695)
Beginning	<u>6,455,314</u>	<u>6,747,009</u>
Ending	<u>\$ 10,978,190</u>	<u>\$ 6,455,314</u>

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

	<u>2012</u>	<u>2011</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>		
<b>CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income	\$ 705,261	\$ 2,785,080
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	1,693,147	1,821,871
Provision for bad debts	4,234,098	4,105,635
Net (increase) decrease in operating assets -		
Accounts receivable	(3,825,194)	(4,171,480)
Estimated third-party payor settlements	-	270,746
Inventories	52,386	(187,164)
Prepaid expenses	(22,007)	(6,501)
Other assets	67,856	141,471
Net increase (decrease) in operating liabilities -		
Accounts payable	(13,639)	219,336
Accrued payroll	40,978	(247,689)
Other accrued expenses	(7,899)	(35,722)
Estimated third-party payor settlements	<u>1,503,162</u>	<u>1,260,316</u>
Net cash provided by operations	<u>\$ 4,428,149</u>	<u>\$ 5,955,899</u>

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

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

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

**RHEA MEDICAL CENTER  
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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

**Organization –**

Rhea Medical Center (the Medical Center) is a public corporation. It was created February 7, 1957, by an act of the State of Tennessee Assembly to operate, control, and manage the general short-term hospital and various health clinics. The Rhea County, Tennessee Board of County Commissioners appoint the Board of Trustee members of the Medical Center, and the Medical Center may not issue debt without the County's approval. For these reasons, the Medical Center is considered to be a component unit of Rhea County and is included as a discretely presented component unit in the basic financial statements of Rhea County, Tennessee (the County).

**Enterprise fund accounting –**

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

**Accounting standards –**

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

**Use of estimates –**

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

**Net patient service revenue –**

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. The 2012 and 2011 net patient service revenues increased by approximately \$89,000 and \$96,000, respectively, due to prior year retroactive adjustments in excess amounts of amounts previously estimated.

Revenue from the Medicare and Medicaid programs accounted for approximately 31 and 6 percent, respectively, for the year ended June 30, 2012, and 32 and 18 percent, respectively, for the year ended June 30, 2011, of the Medical Center's net patient service revenue. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**RHEA MEDICAL CENTER  
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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

**Charity care –**

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

**Operating revenues and expenses –**

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

**Income taxes –**

The Medical Center, as a component unit of Rhea County, Tennessee, is exempt from federal and state income taxes.

**Inventories –**

Inventories are stated at the lower of cost (first-in, first-out) or market.

**Accounts receivable –**

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

**Cash and cash equivalents –**

The Hospital considers currency on hand and demand deposits with financial institutions to be cash. The Hospital considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents exclude amounts limited as to use by internal designation or held by trustees under bond indenture agreements and amounts restricted by donors. There were no cash equivalents at June 30, 2012.

**Noncurrent cash and investments –**

Internally designated for capital acquisition is cash and investments designated by the Board of Trustees for the creation of a health education library. The board acknowledged the use of these funds for their designated purpose in 2012.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
RHEA 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 \$5,000 are recorded as capital assets and are stated at cost. Depreciation is calculated over the estimated useful lives using the straight-line method. Expenditures for maintenance, repairs, renewals and betterments that do not significantly extend the useful lives of the assets are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the books, and any resulting gain or loss is reflected in income for the period.

A summary of useful lives follows –

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

**Cost of borrowing –**

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during 2012 or 2011.

**Deposits –**

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

**Bond issuance costs –**

The costs incurred in connection with the issuance of the bonds are being amortized using the straight-line method over the term of the bonds.

Bond issuance costs at June 30, 2012 and 2011, is as follows –

	<u>2012</u>	<u>2011</u>
Bond issuance costs	\$ 168,700	\$ 168,700
Less accumulated amortization	<u>37,489</u>	<u>31,241</u>
	<u>\$ 131,211</u>	<u>\$ 137,459</u>

**RHEA MEDICAL CENTER  
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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

**Bond issuance costs** (continued) –

Amortization expense was \$6,248 for June 30, 2012 and 2011. Estimated amortization expense for the next five fiscal years is as follows –

For the year ending June 30, 2013	\$ 6,248
2014	6,248
2015	6,248
2016	6,248
2017	6,248

**Risk management** –

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

**Net assets** –

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

**(2) DEPOSITS AND INVESTMENTS:**

**Custodial credit risk – deposits** –

Custodial risk is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned to it. The Medical Center's bank balance of deposits was \$11,060,619 and \$6,336,576 at June 30, 2012 and 2011, respectively. The bank balances held in cash accounts and a repurchase agreement are either insured by the Federal Deposit Insurance Corporation or collateralized by the Tennessee Bank Collateral Pool and are not subject to custodial risk.

**Interest rate risk** –

For an investment, this is the risk that a change in interest rates will affect the fair market value of investments held. The Medical Center invests in numerous certificates of deposit through investment companies and a local financial institution. The Medical Center does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates, except to comply with state statutes.

**RHEA MEDICAL CENTER  
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**(2) DEPOSITS AND INVESTMENTS:**

**Custodial risk – investments –**

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

	<u>2012</u>	<u>2011</u>
Investments:		
Insured by the FDIC	\$ 7,808,494	\$ 9,607,131
Collateralized	<u>-</u>	<u>-</u>
	<u>\$ 7,808,494</u>	<u>\$ 9,607,131</u>

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

	<u>2012</u>	<u>2011</u>
Carrying amount:		
Deposits	\$ 10,977,190	\$ 6,453,885
Certificates of deposit	7,808,494	9,607,131
Cash on hand	<u>1,000</u>	<u>1,429</u>
	<u>\$ 18,786,684</u>	<u>\$ 16,062,445</u>
Included in the following balance sheet captions:		
Cash	\$ 10,978,190	\$ 6,455,314
Current investments	5,640,283	6,428,254
Internally designated for capital acquisition	-	243,345
Noncurrent investments	<u>2,168,211</u>	<u>2,935,532</u>
	<u>\$ 18,786,684</u>	<u>\$ 16,062,445</u>

The certificates of deposit are with various U.S. financial institutions and mature with various terms through June 2014.

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

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center’s established rates for services and amounts reimbursed by third-party payors. The Hospital obtained critical access status effective February 1, 2005. A summary of the basis of reimbursement with major third-party payors follows.

**RHEA MEDICAL CENTER  
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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

**Medicare –**

Inpatient acute care services, outpatient services, inpatient nonacute services, and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and reviewed by the Medicare fiscal intermediary.

**TennCare –**

Inpatient acute care services and outpatient service costs related to TennCare program beneficiaries are paid based upon a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and review by the TennCare fiscal intermediary.

**Others –**

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

**(4) INVENTORIES:**

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

	<u>2012</u>	<u>2011</u>
Pharmacy	\$ 164,764	\$ 143,879
General supplies	79,038	106,624
Dietary	13,404	14,786
Laboratory	27,988	28,867
X-ray	14,827	15,742
Surgery	<u>237,428</u>	<u>279,937</u>
	<u>\$ 537,449</u>	<u>\$ 589,835</u>

**(5) CASH AND INVESTMENTS INTERNALLY DESIGNATED FOR CAPITAL ACQUISITIONS:**

During 2004, the Medical Center received an unrestricted contribution from an anonymous private donor. The Board of Trustees has designated the money, invested in a CD at a local bank, for the creation of a health education library.

**RHEA MEDICAL CENTER  
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**(6) CAPITAL ASSETS:**

A summary of changes in capital assets follows –

	<u>2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>2012</u>
Land	\$ 2,362,513	\$ -	\$ -	\$ -	\$ 2,362,513
Land improvements	65,951	68,144	-	-	134,095
Buildings and improvements	27,517,086	48,614	-	-	27,565,700
Major moveable equipment	12,030,020	75,261	-	-	12,105,281
Fixed equipment	941,525	-	-	-	941,525
Construction in progress	900	497,035	-	-	497,935
Totals at historical cost	<u>42,917,995</u>	<u>689,054</u>	<u>-</u>	<u>-</u>	<u>43,607,049</u>
Less accumulated depreciation for:					
Land improvements	61,798	4,093	-	-	65,891
Buildings and improvements	6,089,160	701,817	-	-	6,790,977
Major moveable equipment	8,282,539	979,184	-	-	9,261,723
Fixed equipment	803,378	1,804	-	-	805,182
	<u>15,236,875</u>	<u>1,686,899</u>	<u>-</u>	<u>-</u>	<u>16,923,773</u>
Property and equipment, net	<u>\$ 27,681,120</u>	<u>\$ (996,045)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,683,276</u>

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

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**(7) OTHER ASSETS:**

The Medical Center pays various fees and expenses to and on behalf of physicians who are recruited to practice at the Medical Center. These expenses are recorded as assets and are amortized over the terms of the physician's contracts. At June 30, 2012 and 2011, respectively, the assets totaled \$570,384 and \$697,659, net of accumulated amortization.

Other assets also include various lease deposits and prepayments totaling \$98,392 and \$38,973 at June 30, 2012 and 2011, respectively.

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

	<b>2012</b>	<b>2011</b>
Loan agreement	\$ 21,961,000	\$ 22,696,000
Capital lease obligation payable in monthly installments of \$7,657, including interest until February 2012, secured by a CT system	-	65,380
Capital lease obligation payable in monthly installments of \$14,970, including interest until August 2012, secured by an MRI system	29,783	204,153
Total long-term debt	21,990,783	22,965,533
Less current maturities of long-term debt	787,783	976,661
Long-term debt, net of current maturities	\$ 21,203,000	\$ 21,988,872

The Public Building Authority of the County of Montgomery, Tennessee issued its "Adjustable Rate Pooled Financing Revenue Bonds, Series 2004" on July 1, 2004, and loaned \$24,100,000 of the proceeds to the Medical Center under a loan agreement with terms substantially identical to terms of the bonds. The bonds mature on various dates from May 25, 2010 through May 25, 2033.

Principal payments will be made annually as they become due. Interest payments are due monthly. Interest is calculated daily as set forth in the loan agreement (0.49% at June 30, 2012).

The loan agreement is a general obligation of Rhea County, Tennessee.

Capital lease obligation #1 requires monthly installments of \$7,657, including interest, until February 2012.

**RHEA MEDICAL CENTER**  
**(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

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

Capital lease obligation #2 requires monthly installments of \$14,970, including interest, until August 2012. The obligation is secured by an MRI system with a cost of \$808,468 and a carrying value of \$26,949 at June 30, 2012.

Scheduled payments on long-term debt are as follows –

		<u>Long-Term Debt</u>		<u>Capital Lease Obligations</u>	
		<u>Principal</u>	<u>Interest *</u>	<u>Principal</u>	<u>Interest</u>
June 30,	2013	\$ 758,000	\$ 105,752	\$ 29,783	\$ 6,889
	2014	781,000	101,981	-	-
	2015	805,000	98,096	-	-
	2016	830,000	94,090	-	-
	2017	856,000	89,959	-	-
	2018-2022	4,694,000	383,214	-	-
	2023-2027	5,470,000	258,941	-	-
	2028-2032	6,372,000	114,136	-	-
	2033	<u>1,395,000</u>	<u>3,418</u>	<u>-</u>	<u>-</u>
		<u>\$ 21,961,000</u>	<u>\$ 1,249,587</u>	<u>\$ 29,783</u>	<u>\$ 6,889</u>

\*Future interest payments are based on the loan amounts outstanding and interest rates in effect at June 30, 2012, and do not necessarily represent the payments that will be required.

Activity for long-term debt as of June 30, 2012 and 2011 follows –

	<u>2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>2012</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 22,696,000	\$ -	\$ 735,000	\$ 21,961,000	\$ 758,000
Capital lease #1	65,380	-	65,380	-	-
Capital lease #2	<u>204,153</u>	<u>-</u>	<u>174,370</u>	<u>29,783</u>	<u>29,783</u>
	<u>\$ 22,965,533</u>	<u>\$ -</u>	<u>\$ 974,750</u>	<u>\$ 21,990,783</u>	<u>\$ 787,783</u>

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

**RHEA MEDICAL CENTER  
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**(9) ACCRUED LEAVE:**

Medical Center employees are paid for vacation and absence due to sickness by a prescribed formula based on length of service. The costs of these compensated absences are accrued as earned. The accumulated vacation and sick leave benefits accrued totaled \$267,745 and \$263,124 for 2012 and 2011, respectively, and are included with accrued payroll in current liabilities.

**(10) CHARITY CARE:**

The Medical Center estimates that the cost of providing care under the charity care policy was approximately \$241,882 and \$400,073 during the years ended June 30, 2012 and 2011, respectively. This is the cost of supplies and services provided to patients for which payment was foregone under the charity care policy, based on current cost to charge ratio for the Medical Center.

**(11) PENSION PLANS:**

Effective January 1, 1990, Rhea County Government and related entities, including the Medical Center, joined the Tennessee Consolidated Retirement System (TCRS), a multiple-employer Public Employee Retirement System (PERS). All full-time personnel employed at or after January 1, 1990, are required to participate in the Tennessee Consolidated Retirement System Pension Plan. The Medical Center contributes the employer's share of pension contributions of 3%, and the employees are required to contribute 5% of their salaries to the plan. Past service costs as of January 1, 1990, were required to be funded upon entering the plan. The Medical Center has chosen to amortize these costs over a thirty-year period by increasing its contribution rate, which is currently 8.72%. Contributions by the medical center totaled \$517,000 and \$511,146 in 2012 and 2011, respectively. Information in regard to funding status, contribution requirements, and trends appear in the financial statements of Rhea County and cannot be separately identified for the Medical Center.

The Medical Center discontinued participation in TCRS for new employees effective July 1, 2012.

**(12) WORKING CAPITAL:**

Net working capital at June 30, 2012 and 2011, was \$13,217,494 and \$11,313,840, respectively.

**(13) DESIGNATED NET ASSETS:**

Net assets reported in 2011 includes \$243,345, which have been designated by the Medical Center's Board of Trustees for capital acquisitions. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. In 2012, the board acknowledged the use of these funds for their designated purpose.

**RHEA MEDICAL CENTER  
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

**(14) COMMITMENTS AND CONTINGENCIES:**

**Operating leases –**

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

Rental expenses included in operations amounted to \$168,407 and \$160,827 in 2012 and 2011, respectively.

The Medical Center leases space to physicians and others under leases with various terms. Total rental income for all operating leases was \$505,296 and \$563,276 for 2012 and 2011, respectively.

Rental income is included in other operating revenue in the accompanying financial statements. The cost and accumulated depreciation related to the professional building and other rental property is included in property and equipment as follows –

Cost	\$ 3,985,190
Accumulated depreciation	<u>3,259,139</u>
	<u>\$ 726,051</u>

**Professional liability insurance –**

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

**Management agreement –**

A management agreement between the Medical Center and Quorum Health Resources, Inc. (Quorum) was signed on April 24, 2009, with effective dates of March 1, 2009 through February 28, 2016. The annual fee is \$266,917 for the contract year beginning March 1, 2009, increases annually by a factor equal to the lower of five percent or the percentage of increase in the Consumer Price Index, and is payable in equal monthly installments. Management services in addition to the fixed fee services are provided by Quorum as needed at varying rates. Total management fees paid to Quorum were \$293,727 and \$297,434 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 Quorum sponsored volume purchasing program. Certain ‘administrative fees’ may be paid to Quorum by outside vendors that sell goods and services to the Medical Center. The administrative fee payable to Quorum by these outside vendors is equal to 3% or less of the purchase price of the goods or services purchased from the vendor by the Medical Center. The contract provides that these fees shall be disclosed to the Medical Center annually in writing.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF  
RHEA COUNTY, TENNESSEE)  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

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

**Management agreement** (continued) –

Quorum also provides certain ‘key personnel’ to the Medical Center who are Quorum employees. The Medical Center reimburses Quorum for these costs and expenses (including, but not limited to salaries, taxes, fringe benefits, and business expenses) of providing these key personnel as invoiced by Quorum. These reimbursements are in addition to the fixed annual management fee described above. The amount paid to Quorum for administrative compensation and other services was \$410,933 and \$399,380 for 2012 and 2011, respectively.

**Litigation** –

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

**(15) CONCENTRATIONS OF CREDIT RISK:**

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

	<u>2012</u>	<u>2011</u>
Medicare	29%	27%
Medicaid/TennCare	7	4
Blue Cross	11	7
Commercial	22	21
Private pay	<u>31</u>	<u>41</u>
	<u>100%</u>	<u>100%</u>

**(16) SUBSEQUENT EVENTS:**

The Medical Center noted no transactions that would provide evidence about material conditions that did not exist at the balance sheet date but arose subsequently, through the date these financial statements were available to be issued, November 26, 2012.

## **SUPPLEMENTARY INFORMATION**

**RHEA MEDICAL CENTER**  
**(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)**  
**SCHEDULE 1 - NET PATIENT SERVICE REVENUE**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>DAILY PATIENT SERVICES:</b>		
Intensive care unit	\$ 24,266	\$ 97,590
Routine care	<u>2,606,919</u>	<u>2,529,608</u>
	<u>2,631,185</u>	<u>2,627,198</u>
 <b>OTHER NURSING SERVICES:</b>		
Central supply	1,451,558	1,608,025
Emergency room	9,758,820	8,308,168
Operating and recovery rooms	<u>1,937,695</u>	<u>2,022,034</u>
	<u>13,148,073</u>	<u>11,938,227</u>
 <b>OTHER PROFESSIONAL SERVICES:</b>		
Anesthesiology	548,803	537,729
Bone densitometry	107,870	116,575
Cardiac rehabilitation	115,733	82,580
CT scans	9,486,565	9,471,792
Electrocardiology	305,425	351,439
Industrial nursing	138,974	212,306
Intravenous therapy	436,171	460,084
Laboratory	5,492,717	5,783,898
MRI	51,531	72,557
Nuclear medicine	3,124,154	2,865,759
Pharmacy	2,042,266	2,235,229
Physical therapy	2,013,308	1,977,745
Radiology	2,693,474	2,718,456
Respiratory therapy	916,600	1,045,503
Speech therapy	96,792	122,653
Vascular studies	<u>345,570</u>	<u>342,476</u>
	<u>27,915,953</u>	<u>28,396,781</u>
 <b>GROSS PATIENT SERVICE REVENUE</b>	 <u>43,695,211</u>	 <u>42,962,206</u>

	<u>2012</u>	<u>2011</u>
Bad debts	\$ 4,234,098	\$ 4,105,635
Blue Cross	2,827,558	3,164,451
Employee discounts	33,557	31,618
Medicare and Medicaid	15,938,245	12,700,982
Other policy discounts	<u>2,742,106</u>	<u>2,855,930</u>
	<u>25,775,564</u>	<u>22,858,616</u>
	<u>\$ 17,919,647</u>	<u>\$ 20,103,590</u>

**RHEA MEDICAL CENTER**  
**(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)**  
**SCHEDULE 2 - OTHER OPERATING REVENUE**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
Cafeteria revenue	\$ 59,892	\$ 53,485
Patient histories	511	398
Rental revenue	505,296	563,276
Vending revenue	1,435	1,871
Miscellaneous	143,089	118,911
	\$ 710,223	\$ 737,941

**RHEA MEDICAL CENTER**  
**(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)**  
**SCHEDULE 3 - SALARIES AND BENEFITS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>NURSING SERVICES:</b>		
Central supply	\$ 36,249	\$ 54,827
Emergency room	1,251,229	1,267,453
Intensive care unit	121,935	106,201
Nursing	1,298,431	1,360,916
Operating and recovery rooms	<u>452,296</u>	<u>495,769</u>
	<u>3,160,140</u>	<u>3,285,166</u>
<b>OTHER PROFESSIONAL SERVICES:</b>		
Cardiac rehab	61,994	71,756
Clinic	25,070	45,166
CT scans	60,861	63,688
Industrial nursing	83,880	114,289
Laboratory	518,917	514,287
MRI	57,474	56,262
Nuclear medicine	281,053	286,523
Pharmacy	202,293	200,756
Radiology	554,756	545,681
Respiratory therapy	<u>273,128</u>	<u>287,579</u>
	<u>2,119,426</u>	<u>2,185,987</u>
<b>GENERAL SERVICES:</b>		
Building operation and maintenance	114,548	94,824
Dietary	206,776	200,714
Housekeeping	216,888	212,260
Medical records	211,918	199,789
Materials management	<u>45,304</u>	<u>-</u>
	<u>795,434</u>	<u>707,587</u>
<b>ADMINISTRATIVE AND FISCAL SERVICES:</b>		
Administrative and business offices	<u>3,152,163</u>	<u>3,153,191</u>
	<u>\$ 9,227,163</u>	<u>\$ 9,331,931</u>

**RHEA MEDICAL CENTER**  
**(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)**  
**SCHEDULE 4 - MEDICAL SUPPLIES AND DRUGS**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>NURSING SERVICES:</b>		
Central supply	\$ 453,425	\$ 304,842
Emergency room	57,499	56,023
Intensive care unit	-	397
Nursing	34,936	36,491
Operating and recovery rooms	<u>145,938</u>	<u>135,142</u>
	<u>691,798</u>	<u>532,895</u>
<b>OTHER PROFESSIONAL SERVICES:</b>		
Cardiac rehab	2,537	-
Clinic	3,620	7,632
CT scans	42,474	48,577
Intravenous therapy	24,567	23,862
Laboratory	454,881	388,391
MRI	7,503	9,457
Nuclear medicine	64,850	77,898
Pharmacy	413,202	429,102
Physical therapy	7,340	6,563
Radiology	11,279	19,858
Respiratory therapy	32,245	37,516
Speech therapy	<u>27</u>	<u>37</u>
	<u>1,064,525</u>	<u>1,048,893</u>
	<u>\$ 1,756,323</u>	<u>\$ 1,581,788</u>

**RHEA MEDICAL CENTER**  
**(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)**  
**SCHEDULE 5 - OTHER SUPPLIES**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>NURSING SERVICES:</b>		
Central supply	\$ 425	\$ 693
Emergency room	9,350	6,857
Nursing	9,186	15,879
Operating and recovery rooms	<u>3,114</u>	<u>4,194</u>
	<u>22,075</u>	<u>27,623</u>
<b>OTHER PROFESSIONAL SERVICES:</b>		
Cardiac rehab	1,132	1,287
Clinic	310	1,019
CT scans	5,885	7,740
Industrial nursing	9,556	11,931
Laboratory	2,375	1,938
Nuclear medicine	229	269
Pharmacy	3,125	1,240
Physical therapy	3,805	3,900
Radiology	5,923	4,020
Respiratory therapy	<u>58</u>	<u>225</u>
	<u>32,398</u>	<u>33,569</u>
<b>GENERAL SERVICES:</b>		
Building operation and maintenance	34,609	39,212
Dietary	172,011	154,529
Gift shop	10,465	14,376
Housekeeping	50,019	46,749
Materials management	667	-
Medical records	1,211	937
Professional building	<u>1,549</u>	<u>118</u>
	<u>270,531</u>	<u>255,921</u>
<b>ADMINISTRATIVE AND FISCAL SERVICES:</b>		
Administrative and business office	<u>51,723</u>	<u>72,300</u>
	<u>\$ 376,727</u>	<u>\$ 389,413</u>

**RHEA MEDICAL CENTER**  
**(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)**  
**SCHEDULE 6 - OTHER EXPENSES**  
**FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b>NURSING SERVICES:</b>		
Central supply	\$ 517	\$ 46
Emergency room	80,223	78,093
Nursing	141,657	164,796
Operating and recovery rooms	<u>212,074</u>	<u>190,013</u>
	<u>434,471</u>	<u>432,948</u>
<b>OTHER PROFESSIONAL SERVICES:</b>		
Anesthesiology	80,254	86,738
Bone densitometry	4,300	2,568
Cardiac rehab	6,749	6,315
Clinic	68,619	71,831
CT scans	90,958	91,321
Industrial nursing	37,336	52,288
Laboratory	191,975	165,606
Nuclear medicine	151,752	167,899
Pharmacy	37,596	28,042
Physical therapy	674,017	647,182
Radiology	87,827	119,124
Respiratory therapy	11,541	17,678
Speech therapy	<u>69,610</u>	<u>74,577</u>
	<u>1,512,534</u>	<u>1,531,169</u>
<b>GENERAL SERVICES:</b>		
Building operation and maintenance	648,405	641,515
Dietary	18,146	22,593
Gift shop	50	62
Housekeeping	11,541	8,620
Laundry	142,619	136,442
Materials management	73	54
Medical records	87,500	95,921
Professional building	<u>25,842</u>	<u>32,011</u>
	<u>934,176</u>	<u>937,218</u>
<b>ADMINISTRATIVE AND FISCAL SERVICES:</b>		
Administrative and business office	<u>1,741,991</u>	<u>1,825,253</u>
	<u>\$ 4,623,172</u>	<u>\$ 4,726,588</u>



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

**To the Board of Trustees of**

**Rhea Medical Center (a component unit of Rhea County, Tennessee):**

We have audited the financial statements of Rhea Medical Center (a component unit of Rhea County, Tennessee) (the Medical Center) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 26, 2012. 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 Medical Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

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

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

This report is intended solely for the information and use of the Board of Trustees, management, the State of Tennessee, and the Rhea County Government and is not intended to be and should not be used by anyone other than these specified parties.

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

November 26, 2012

