Houston County Community Hospital
Financial Statements

June 30, 2013

Houston County Community Hospital

HOUSTON COUNTY COMMUNITY HOSPITAL

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CRI CARR RIGGS & INGRAM

Carr, Riggs & Ingram, LLC
3011 Armory Drive
Suite 190
Nashville, TN 37204

(615) 665-1811
(615) 665-1829 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Houston County Community Hospital
Erin, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Houston County Community Hospital (the "Hospital"), a component unit of Houston County, Tennessee, as of and for the period from March 27, 2013 (Date of Inception) to June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Houston County Community Hospital, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Houston County Community Hospital's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the State of Tennessee Comptroller of the Treasury's *Audit Manual* and is not a required part of the basic financial statements.

The accompanying schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013, on our consideration of Houston County Community Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Houston County Community Hospital's internal control over financial reporting and compliance.

Carr, Riggs & Ingram

CARR, RIGGS & INGRAM, LLC
Nashville, Tennessee
Certified Public Accountants
December 31, 2013

Management Discussion and Analysis

The Hospital's management discussion and analysis presents an overview of the Hospital's financial activities for the period ended June 30, 2013.

The Hospital has implemented Governmental Accounting Standards Board ("GASB") Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* Among those guidelines are the components of this section dealing with management's discussion and analysis. Its intent is to provide a brief, objective, and easily readable analysis of the Hospital's financial performance for the period March 27, 2013 through June 30, 2013 and its financial position at fiscal year-end June 30, 2013.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Hospital's financial statements. The Hospital's financial statements consist of: 1) statement of net position, 2) statement of revenues, expenses and changes in net position, 3) statement of cash flows, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Financial Condition

The Hospital was purchased on March 27, 2013 by the Houston County, Tennessee Government and commenced operations as a new entity with contributed assets of $1,693,848 and assumed liabilities of $117,985. The following statements represent the period of March 27 – June 30, 2013. As of June 30, 2013, the Medicare billing number had not been approved. Therefore, the actual revenue and reimbursement rates cannot be determined and are estimated based on management's knowledge of current and past events.

Statement of Net Position Financial Analysis

An analysis of condensed statement of net position information follows:

Assets	
Current assets	$ 743,470
Capital assets, net	1,537,734
Total assets	2,281,204
Liabilities	
Current liabilities	236,726
Long-term liabilities	35,286
Total liabilities	272,012
Net Position	
Invested in capital assets	1,436,534
Unrestricted	572,658
Total net position	2,009,192
Total liabilities and net position	$ 2,281,204

After the initial contribution of assets, total assets increased $587,356 or 34.7 percent during the period ending June 30, 2013.

- Current assets increased by $625,124. Most of this increase was due to an increase in patients' accounts receivable due from insurance contracts and/or patients.
- Cash & short term investments increased by $44,182. This increase was primarily due to deposits of cash generated by other operating revenue and transfers in from the Houston County, Tennessee Government for working capital for operations.
- Property plant & equipment decreased by $37,767. Capital asset additions were comprised primarily of purchased equipment totaling $18,789 offset by depreciation expense of $56,556.

After the initial assumption of liabilities, total liabilities increased by $154,027 or 130% during the period ended June 30, 2013.

- Current liabilities increased by $236,726. Most of this increase was due to an increase in accounts payable and other current liabilities.
- Long term liabilities consisted of capital lease obligations on major moveable equipment.

Results of Operations Financial Analysis

An analysis of revenues, expenses, and changes in net position is as follows:

Operating Revenues	
Net patient service revenue	$ 580,328
Other operating revenue	64,618
Total operating revenues	644,946
Operating Expenses	
Salaries & Wages	694,970
Professional fees	273,964
Supplies and other	156,342
Purchased services	100,328
Employee benefits	95,795
Depreciation and amortization	56,556
Utilities	39,390
Contract labor	28,886
Property taxes and insurance	28,162
Other operating expenses	23,398
Rent	15,433
Repairs and maintenance	9,699
Total operating expenses	1,522,923
Operating loss	(877,977)
Nonoperating Revenues (Expense)	
Grants	23,500
Interest expense	(5,569)
Total nonoperating revenues (expense)	17,931

Capital Contribution, net	1,575,863
Transfers In	1,293,375
Excess of revenues over expenses	2,009,192
Change in net position	$ 2,009,192

Operating Revenues

Operating revenues were $644,946. Increases in volume accounted for the operating revenues.

Operating Expenses

Total operating expenses were $1,522,923. This was due to the following factors:

- Salaries and wages were $694,970 to operate and staff the hospital and employee benefits were $95,795 relating to those salaries and wages.
- Professional fees were $273,964. This was mainly due to payments for contracted emergency room medical doctors.
- Supplies were $156,342 for purchases of materials and drugs to operate the Hospital.
- Purchased services of $100,328 were primarily payments for data processing and third party services.

Nonoperating Revenues and Expenses

There was a net increase of $17,931 from nonoperating revenues and expenses due to the following factors:

- Grant revenue of $23,500 related to grants received from the U.S. Department of Health and Human Services.
- Other nonoperating expenses were $5,569 of interest expense mostly related to the capital leases.

Capital Contributions & Transfers In

Capital contributions consisted of $1,693,848 of land, buildings, equipment, inventory and forgiveness of a liability less $117,985 of liabilities assumed by the hospital; totaling $1,575,863 of capital contributions during the period ended June 30, 2013. Transfers In consisted of working capital draws to fund current operations.

Excess of Revenues over Expenses

Excess of revenues over expenses were $2,009,192 during the period ended June 30, 2013. The excess was largely due to working capital transfers and contributions from the Houston County, Tennessee Government. The Hospital received its Medicare billing number effective August 2, 2013. The Hospital is in discussion with the Center of Medicare and Medicaid Services (CMS) to back date the effective date of the Medicare billing number for billing to its opening date.

Contacting the Hospital Financial Manager

This financial report is designed to provide citizens, patients and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional information, please contact the Chief Financial Officer, Shannon Allison at sallison@hcchhealthcare.com or (931) 289-4211 extension 420.

HOUSTON COUNTY COMMUNITY HOSPITAL

STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 44,182
Patient accounts receivable, net of estimated uncollectibles of approximately $3,663,642	565,498
Inventory	86,257
Prepaid expenses	16,163
Other current assets	31,370
TOTAL CURRENT ASSETS	743,470
PROPERTY, PLANT AND EQUIPMENT, NET	1,537,734
TOTAL ASSETS	$ 2,281,204
LIABILITIES AND NET POSITION	
CURRENT LIABILITIES:	
Accounts payable	$ 133,032
Accrued compensation and payroll	28,489
Current portion of capital lease obligations	65,914
Other current liabilities	9,291
TOTAL CURRENT LIABILITIES	236,726
CAPITAL LEASE OBLIGATIONS	35,286
TOTAL LIABILITIES	272,012
NET POSITION	
Net investment in capital assets	1,436,534
Unrestricted	572,658
TOTAL NET POSITION	2,009,192
TOTAL LIABILITIES AND NET POSITION	$ 2,281,204

See accompanying notes to financial statements.

HOUSTON COUNTY COMMUNITY HOSPITAL

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PERIOD FROM MARCH 27, 2013 TO JUNE 30, 2013

OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of approximately $982,500)	$	580,328
Other operating revenue		64,618
TOTAL OPERATING REVENUES		644,946
OPERATING EXPENSES		
Salaries and wages		694,970
Professional fees		273,964
Supplies and other		156,342
Purchased services		100,328
Employee benefits		95,795
Depreciation and amortization		56,556
Utilities		39,390
Contract labor		28,886
Property taxes and insurance		28,162
Other operating expenses		23,398
Rent		15,433
Repairs and maintenance		9,699
TOTAL OPERATING EXPENSES		1,522,923
OPERATING LOSS		(877,977)
NONOPERATING REVENUES (EXPENSES)		
Grants		23,500
Interest expense		(5,569)
TOTAL NONOPERATING REVENUES (EXPENSES)		17,931
CAPITAL CONTRIBUTIONS, NET		1,575,863
TRANSFERS IN		1,293,375
EXCESS OF REVENUES OVER EXPENSES		2,009,192
CHANGE IN NET POSITION		2,009,192
NET POSITION - BEGINNING OF PERIOD		-
NET POSITION - END OF PERIOD	$	2,009,192

See accompanying notes to financial statements.

HOUSTON COUNTY COMMUNITY HOSPITAL

STATEMENT OF CASH FLOWS
PERIOD FROM MARCH 27, 2013 TO JUNE 30, 2013

OPERATING ACTIVITIES	
Receipts from and on behalf of patients	$ 14,830
Payments to suppliers and contractors	(503,274)
Payments to employees	(762,276)
Other receipts and payments, net	19,175
NET CASH USED IN OPERATING ACTIVITIES	(1,231,545)
NONCAPITAL FINANCING ACTIVITIES	
Grants	23,500
Transfers In from the Houston County, Tennessee Government	1,293,375
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,316,875
CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest paid on capital lease obligations	(5,569)
Purchase of capital assets	(18,789)
Payments of capital lease obligations	(16,790)
NET CASH USED BY FINANCING ACTIVITIES	(41,148)
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,182
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	-
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 44,182

See accompanying notes to financial statements.

HOUSTON COUNTY COMMUNITY HOSPITAL

STATEMENT OF CASH FLOWS (CONTINUED)
PERIOD FROM MARCH 27, 2013 TO JUNE 30, 2013

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$	(877,977)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization		56,556
Provision for bad debts		982,500
Changes in:		
Patient accounts receivable		(1,547,998)
Inventory		2,090
Prepaid expenses		(16,163)
Other current assets		(1,371)
Accrued compensation and payroll		28,489
Accounts payable		133,037
Other current liabilities		9,292
NET CASH USED IN OPERATING ACTIVITIES	$	(1,231,545)
SUPPLEMENTAL INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Cash paid for interest	$	5,569

NONCASH CAPITAL FINANCING ACTIVITIES

Capital assets of $1,575,501, inventory of $88,347 and forgiveness of a $30,000 liability less $117,985 of assumed liabilities were contributed from the Houston County, Tennessee Government.

See accompanying notes to financial statements.

NOTE 1 – NATURE OF OPERATIONS AND REPORTING ENTITY

Houston County Community Hospital (the "Hospital") is an acute care hospital that provides inpatient, outpatient, and emergency services primarily for the residents of Houston County, Tennessee (the "County") and the surrounding areas. Houston County Community Hospital is currently licensed to provide 25 patient beds.

The Hospital was established by the County as a special purpose government entity under the laws of the State of Tennessee. The Hospital is owned by the County and governed by a Board of Trustees appointed by the County Board of Commissioners. Because of the relationship between the Hospital and the County, the Hospital has been defined as a component unit of the County.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Budgetary Information

The Hospital is required by statute of the State of Tennessee to prepare a non-appropriated annual budget. The budget is not subject to appropriation and is therefore not required to be presented as supplementary information.

Use of Estimates

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

The most critical estimates relate to revenue recognition, the collectability of accounts receivable and related reserves, and obligations under insurance programs, which include worker's compensation, professional liability, property and general liability and employee health and welfare insurance programs.

Enterprise Fund Accounting

The Hospital uses Enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board ("GASB") Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital applies the provisions of all relevant pronouncements of the Financial Accounting Standards Board ("FASB") issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements. FASB statements issued subsequent to November 30, 1989 are not applicable.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with an original maturity at purchase date of three months or less. The hospital does not have a policy which would restrict the type of deposits allowed.

Inventory

Inventories are stated at the lower of cost or market based on the average cost method.

Prepaid Expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

Capital Assets

Capital asset acquisitions are recorded at cost, if purchased. The Hospital has set a capitalization threshold of $1,000. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Assets under capital lease obligations are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset, and are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization in the financial statements.

	Estimated Useful Life
Land	N/A
Buildings	20 years
Fixed equipment	10 years
Major moveable equipment	1-5 years

Estimated Malpractice Costs

The Hospital considers the need for recording a liability for malpractice claims. When determined to be necessary, the provision for estimated malpractice claims and the cost associated with litigation and settlement includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Compensated Absences

Hospital employees are granted paid time off ("PTO"). PTO combines vacation, sick and holiday time. All full time employees accrue PTO at the same amount as stated in the personnel policy manual. The accumulated time is payable in full upon termination if employed for at least ninety days.

Net Position

Net position consists of invested in capital assets (property and equipment), net of related debt; restricted; and unrestricted. Invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and the outstanding balance of any related debt that is attributable to the acquisition of the capital assets. Restricted net positions are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations or those restricted by constitutional provisions and enabling legislations. Unrestricted net positions consist of all other assets.

When both restricted and unrestricted resources are available, it is the Hospital's policy to use the restricted resources before using the unrestricted resources.

Net Patient Service Revenues

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third party payers, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition and accrual of revenue on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

The primary third-party programs include Medicare and Medicaid, which account for a significant portion of the Hospital's revenues. The laws and regulations under which Medicare and Medicaid programs operate are extremely complex and subject to interpretation and frequent changes. As part of operating under these programs, there is a possibility that government authorities may review the Hospital's compliance with these laws and regulations. Such review may result in adjustments to program reimbursement previously received and subject the Hospital to fines and penalties. Although no assurance can be given, management believes it has complied with the requirements of these programs.

Financial Assistance

The Hospital provides care without charge or at a reduced charge, to patients who meet certain criteria under its financial assistance policy. Because the Hospital does not pursue collection of amounts determined to qualify pursuant to this policy, these charges are not reported as revenue.

Income Taxes

Houston County Community Hospital is a governmental entity, and as such, is exempt from federal and state income taxes.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Non-exchange revenues, including investment income, grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Post-employment Benefits Other Than Pensions

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, addresses how state and local governments should account for and report costs and obligations related to post-employment benefits other than pensions ("OPEB"). GASB 45 has no effect on the June 30, 2013 financial statements of the Hospital, as the Hospital does not offer its employees any qualifying post-employment benefits.

Subsequent Events

Subsequent events have been evaluated through December 31, 2013, the date these financial statements were available to be released.

NOTE 3 – PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable, net reported as current assets by the Hospital at June 30, 2013 consisted of these amounts:

Receivable from Medicare	$ 2,359,888
Receivable from Medicaid	571,321
Receivable from insurance carriers	873,657
Patient receivables	424,274
Total patient accounts receivable	4,229,140
Less allowance for contractuals	2,681,142
Less allowance for bad debt	982,500
Patient accounts receivable, net	$ 565,498

NOTE 4 – PROPERTY, PLANT, AND EQUIPMENT

A summary of property, plant, and equipment is as follows:

Land	$ 214,000
Building	1,195,991
Fixed equipment	12,853
Major moveable equipment	171,446
	1,594,290
Less: accumulated depreciation and amortization	(56,556)
Property, plant, and equipment, net	$ 1,537,734

Depreciation and amortization expense for the period ended June 30, 2013 totaled $56,556.

Capital assets activity for the period ended June 30, 2013 is as follows:

Capital Assets not Being Depreciated	**Beginning**	**Additions**	**Retirements**	**Ending**
Land	$ -	$ 214,000	$ -	$ 214,000
Total capital assets not being depreciated	-	214,000	-	214,000
Other Capital Assets				
Buildings	-	1,195,991	-	1,195,991
Fixed equipment	-	12,853	-	12,853
Major moveable equipment	-	171,446	-	171,446
Total other assets at historical cost	-	1,380,290	-	1,380,290
Less accumulated depreciation and amortization				
Buildings	-	14,950	-	14,950
Fixed equipment	-	107	-	107
Major moveable equipment	-	41,499	-	41,499
Total accumulated depreciation and amortization	-	56,556	-	56,556
Depreciable assets, net	-	1,323,734	-	1,323,734
Total capital assets, net	$ -	$ 1,537,734	$ -	$ 1,537,734

NOTE 5 – CAPITAL LEASE OBLIGATIONS

A summary of capital lease obligations at June 30, 2013 are as follows:

Capital lease for major moveable equipment capitalized at fair value of $66,500 with payments of $2,510 per month expiring in September 2015	$ 60,559
Capital lease for major moveable equipment capitalized at fair value of $51,490 with payments of $4,477 per month expiring in April 2014	40,641
	101,200
Less current maturities	(65,914)
	$ 35,286

Aggregate annual maturities of the payments on capital lease obligations at June 30, 2013, are as follows:

Year ending June 30,	
2014	$ 74,892
2015	30,120
2016	7,530
	112,542
Less amount representing interest	(11,342)
Present value of minimum lease payments	101,200
Less current maturities	(65,914)
Noncurrent portion	$ 35,286

Capital lease obligation activity was as follows:

	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Amount Due Within One Year**
Capital leases	$ -	117,990	(16,790)	101,200	65,914

The following is an analysis of the major moveable equipment under capital lease at June 30, 2013:

Major moveable equipment	$ 117,990
Less accumulated amortization	(29,498)
	$ 88,492

NOTE 6 – INSURANCE PROGRAMS

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 and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in 2013. The Hospital also carries insurance for medical malpractice claims and judgments.

Medical Malpractice Insurance – The Hospital purchases professional and general liability insurance to cover medical malpractice claims. The future assertion of claims for occurrences prior to year end is reasonably possible and may occur, although not anticipated. In any event, management believes that any such claims would be substantially covered under its insurance program.

The Tennessee Governmental Tort Liability Act provides a cap on the amount of damages recoverable against government entities, including hospitals. For claims arising from events occurring on or after July 1, 2007, the amount recoverable in anyone one incident is limited to $700,000.

NOTE 7 – NET POSITION

Invested in capital assets, net of related debt, are as follows:

Capital Assets	$1,594,290
Less accumulated depreciation and amortization	(56,556)
Less debt outstanding related to capital assets	(101,200)
Invested in capital assets, net of related debt	$1,436,534

NOTE 8 – NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payers follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries will be 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. Outpatient services related to Medicare beneficiaries will be reimbursed based upon a prospective payment system commonly known as APC (Ambulatory Payment Classification). The Hospital will be reimbursed for cost-reimbursable items including Medicare bad debts, and disproportionate share payments at a tentative rate, with final settlement determined after submission of annual cost reports. Because the Hospital has not received its Medicare billing number, management believes there are no cost reports outstanding as of June 30, 2013.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries were reimbursed upon a cost-based methodology established by the State of Tennessee through its TennCare program. The Hospital was reimbursed at a tentative rate, which is adjusted annually based on the annual cost reports as submitted by the Hospital and audits by the Medicaid fiscal intermediary.

As of June 30, 2013 the Hospital's Medicare billing number had not been approved by the Centers for Medicare and Medicaid Services (CMS). The Hospital believes it has filed all of the necessary documentation to obtain its Medicare billing number. Management of the Hospital is negotiating with CMS to obtain its Medicare billing number effective as of March 27, 2013. However, management has reserved substantially all of the net Medicare revenue for the period from March 27, 2013 to June 30, 2013.

Effective August 2, 2013 the Hospital received its Medicare billing number (See Note 16).

The percentage of the Hospital's gross patient revenue from Medicare and Medicaid programs are as follows:

Medicare programs	75%
Medicaid programs	7%
Total	82%

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 future.

Other – 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 and discounts from established charges.

A summary of net patient service revenue follows:

Gross patient service revenue	$ 4,358,371
Less:	
Provision for contractual adjustments	2,795,543
Bad debts	982,500
Net patient service revenue	$ 580,328

NOTE 9 – FINANCIAL ASSISTANCE

There were no charges foregone for services and supplies furnished under the Hospital's financial assistance policy for the period ended June 30, 2013.

NOTE 10 – CONCENTRATION OF CREDIT RISK

***Accounts Receivable* -** The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The percentage mix of accounts receivables from patients and major third-party payers at June 30, 2013 was as follows:

Medicare	56%
Medicaid	13%
Blue Cross	11%
Self-pay	7%
Commercial	5%
Medicare Advantage	5%
TriCare	2%
Workers Comp	1%
	100%

NOTE 11– PATIENT SERVICE REVENUE UNDER CONTRACT

A summary of gross revenue from patient services provided under contract with third-party payers follows:

Medicare	75%
Medicaid	7%
Blue Cross	6%
Self-pay	4%
Commercial	4%
Medicare Advantage	2%
TriCare	1%
Workers Comp	1%
	100%

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Operating Lease – The Hospital leases equipment under operating leases. Total rental expense for the period ended June 30, 2013 for all operating leases was $15,433.

The following is a schedule by year of expiration of approximate future minimum lease payments under noncancelable operating leases as of June 30, 2013 that have initial or remaining lease terms in excess of one year:

2014	57,031
2015	38,469
2016	20,856
2017	18,007
2018	13,311
	$147,674

NOTE 13 – FUTURE ACCOUNTING PRONOUNCNEMENTS

The Governmental Accounting Standards Board has issued statements that will become effective in subsequent fiscal years. The statements address:

- Items previously reported as assets and liabilities;
- Accounting and financial reporting for pensions;
- Mergers, acquisitions and transfers of operations; and
- Financial guarantees.

The Hospital is currently evaluating the effects that these statements will have on its financial statements for subsequent fiscal years.

NOTE 14 – ACQUISITION OF HOSPITAL

On March 18, 2013, the Houston County Commission voted to buy the Hospital and its equipment for a negotiated price of $2.44 million from Rural Healthcare Developers. The assets purchased consisted of $214,000 of land, $1,195,991 of building and improvements, $165,510 of major moveable equipment, $88,347 of inventory and forgiveness of $30,000 of a liability previously owed. The Hospital also assumed capital lease obligations of $117,985. The Hospital paid legal fees, closing costs and associated expenses of $759,145. The purchase was completed and the Hospital was reopened on March 27, 2013. To finance the purchase of the Hospital, the Houston County Commission issued General Obligation Bonds to the United States Department of Agriculture (USDA). The Houston County Tennessee Government transferred $1,293,375 of funds for working capital purposes during the period from March 27, 2013 to June 30, 2013. The first certificate of indebtedness in a series of certificates with the USDA that will total $7.5 million was issued on March 27, 2013 for $5,013,150 that bears interest at 3.125% interest, where both principal and interest are due at maturity at March 27, 2015.

NOTE 15 – SUBSEQUENT EVENTS

In August 2013, the hospital received an additional transfer in of $338,000 for working capital from the Houston County, Tennessee Government to help finance current operations.

Effective August 2, 2013, the Hospital received its Medicare billing number from CMS. The Hospital is negotiating its effective date and requesting that it be effective retroactively to March 27, 2013.

SUPPLEMENTAL INFORMATION

HOUSTON COUNTY COMMUNITY HOSPITAL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PERIOD FROM MARCH 27, 2013 TO JUNE 30, 2013

Federal Grantor/ Pass-through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
FEDERAL AWARDS						
U.S. Department of Health and Human Services						
Passed through Tennessee Department of Health						
National Bioterrorism Hospital Preparedness Program	93.889	N/A	$ -	$ 20,000	$ 20,000	$ -
State Rural Hospital Flexibility Program	93.241	N/A	-	3,500	3,500	-
TOTAL FEDERAL AWARDS			$ -	$ 23,500	$ 23,500	$ -

Note 1 - Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the grant activity of Houston County Community Hospital, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the State of Tennessee Comptroller of the Treasury's *Audit Manual*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Note 2 - Allocation of Indirect Costs

The Hospital made no indirect cost allocation to grant expenditures.

COMPLIANCE SECTION

Carr, Riggs & Ingram, LLC
3011 Armory Drive
Suite 190
Nashville, TN 37204

(615) 665-1811
(615) 665-1829 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' 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*

Board of Trustees
Houston County Community Hospital
Erin, Tennessee

We have audited, in accordance with the 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, the financial statements of Houston County Community Hospital, as of and for the period March 27, 2013 (Date of Inception) to June 30, 2013, and the related notes to the financial statements, which collectively comprise Houston County Community Hospital's basic financial statements, and have issued our report thereon dated December 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Houston County Community Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Houston County Community Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of Houston County Community Hospital's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Those findings are 2013-001 to 2013-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Houston County Community 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.*

Hospital's Response to Findings

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram

CARR, RIGGS & INGRAM, LLC
Nashville, Tennessee
Certified Public Accountants
December 31, 2013

FINDING 2013-001

Condition**:** Two invoices totaling $11,947 for contracted services provided to the Hospital during June 2013 were not accrued as liabilities at June 30, 2013.

Criteria**:** Liabilities should be accrued in the period in which the Hospital incurs the liability.

Cause of Condition**:** The expenses were recognized as of the invoice date, which was dated after June 30, 2013.

Potential Effects of Condition**:** Liabilities and expenses were understated by $11,947 at June 30, 2013.

Recommendation**:** Recognize expenses and expenditures during the period in which they are incurred, which may be prior to the invoice date.

Views of Responsible Officials**:** The invoices were overlooked by the accounting department at the June 30th close and should have been accrued when entered the following month. Accounts payable will be made aware of the oversight in an effort to prevent in the future.

FINDING 2013-002

Condition**:** Inventory balances were not properly recorded on the balance sheet of the Hospital.

Criteria**:** All asset and liabilities should have been recorded on the balance sheet at June 30, 2013.

Cause of Condition**:** No physical inventory counts were taken, and thus the inventory amounts were not properly recorded and therefore the balances are estimated at June 30, 2013.

Potential Effects of Condition**:** Inventory could be over or understated as a result of the estimation.

Recommendation**:** All inventories should be recorded on the hospital's balance sheet. Inventory counts should be taken at a minimum semiannually with adjustments to inventory balances clearly documented.

Views of Responsible Officials**:** Management believed that the fiscal year end would remain December 31st, as it had been under the previous owners, and had planned to do the pharmacy inventory count in December to correctly record the inventory balances on the balance sheet. It was late September when management learned from the state comptroller's office that the fiscal year would need to be June 30th in accordance with the county government. All future inventory counts will be done as of June 30th year end.