HENRY COUNTY MEDICAL CENTER
BOARD OF TRUSTEES MEETING

(Solely for the use of the Board of Trustees
and Management)

September 26, 2013

Report to the Board of Trustees

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To the Board of Trustees
Henry County Medical Center
Paris, Tennessee:

We have audited the financial statements of Henry County Medical Center (Medical Center), a component unit of Henry County, Tennessee, for the year ended June 30, 2013, and have issued our report thereon dated September 19, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 19, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Medical Center are described in Note 2 to the consolidated financial statements. We noted no transactions entered into by the Medical Center during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimates of the depreciable lives of property and equipment, allowance for bad debts, contractual adjustments and estimated third-party settlements are based, among other factors, on historical information, trends of delinquencies and charge-offs and cost report settlements. In addition, management's estimates of incurred but not reported claims (IBNR) for self-insurance is based among other factors on historical claims data, utilization statistics, and other related data. We evaluated the key factors and assumptions used to develop the depreciable lives of property and equipment, allowance for bad debts, contractual adjustments, third-party settlements, and IBNR and had discussions with management in determining that the balances are reasonable in relation to the financial statements of the Medical Center taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management elected not to correct one misstatement noted during the audit that would have resulted in an increase in revenue of approximately $241,000. Management has determined that its effect is immaterial to the financial statements taken as a whole. Additionally, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 19, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Medical Center's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Medical Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Information in Documents Containing Audited Financial Statements</u>

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

<u>Independence</u>

We are not aware of any relationships between our firm and the Medical Center that, in our professional judgment, may reasonably be thought to bear on our independence which have occurred during the period from July 1, 2012 through the date of this letter.

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This information is intended solely for the use of the Board of Trustees, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 19, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of Henry County Medical Center (HCMC), we offer readers of the financial statements this narrative overview and analysis of the financial performance during the years ended June 30, 2013, 2012, and 2011. The budget for year ended 2013 is also included for comparative review. Please read this analysis in conjunction with the financial statements.

STATISTICAL HIGHLIGHTS

Table 1 below is a comparative analysis of statistics. Growth and stability are trends in Surgeries, Emergency Visits, Outpatient Visits, and EMS Runs. We see a continued decline in hospital admissions, hospital observations, and the Healthcare Center (HCHC) average daily census. Statistics for the budget are based on the prior year with growth factors for physician recruiting and marketing initiatives. These trends are reflective of current healthcare trends from the inpatient setting to that of outpatient.

Table 1

Statistics

					FYE 2013 vs.		
	FYE 2013	FYE Budget	FYE 2012	FYE 2011	Budget	FYE 2012	FYE 2011
Hospital							
Total Patients in a Bed (Admits + Obvs)	5,116	5,772	5,722	5,526	-11%	-11%	-7%
Admissions	3,500	3,767	3,717	3,828	-7%	-6%	-9%
Average Daily Census	42	44	45	46	-5%	-7%	-9%
Observations	1,616	2,005	2,005	1,698	-19%	-19%	-5%
Surgeries	7,131	7,149	7,146	5,073	0%	0%	41%
Emergency Visits	18,407	18,320	18,493	17,988	0%	0%	2%
Outpatient Visits	55,922	56,000	54,674	54,526	0%	2%	3%
Healthcare Center - ADC	111	127	127	130	-13%	-13%	-15%
EMS Agency - Runs	6,048	5,301	5,499	5,648	14%	10%	7%

A review of the above statistics shows that admissions, average daily census for both the hospital and HCHC, and observations experienced declines during the previous years, and were also under budget. This is a result of current economic conditions, unemployment, and changes in insurance policy, thereby driving more patients to treatments in the outpatient setting delivered through hospital outpatient services, physician in-office treatments, home health, and other at home treatments. The Total Patients in a Bed statistic shows a decline of 11% compared to prior year and budget. Our market share information reports that market share increased to 62% for FYE 2013 from 57% for FYE 2012, further demonstrating the transition of healthcare in the inpatient setting to that of an outpatient setting.

Surgeries show a significant increase over FYE 2011 and stability compared to FYE 2012 and the budget. During the fiscal year 2012, HCMC purchased a local surgery center. The purchase has allowed HCMC to recapture market share, gain economies of scale, to position ourselves in collaboration versus competition, and prepare for health reform.

Emergency visits, outpatient visits, and EMS runs trend above prior years and the budget. Changes in technology and insurance policy continue to drive growth in outpatient procedures and testing. Patients continue to experience loss of insurance and therefore push off medical needs and ultimately land in the emergency room. As stated above, patients are seeking medical attention in more of an outpatient setting. HCMC opened an Imaging Center during FYE 2013 to continue to position the organization for an outpatient market.

The aging of the population in the service area of HCMC promotes gradual growth for the hospital. Recruiting efforts are on-going and key to growth. Two physicians were brought to the area. Their practices have started and are moving forward with attracting patient visits. Marketing initiatives are also a key to growth. Our hospital is accredited by Joint Commission, our home health is listed in the top twenty-five percent of agencies in the nation for quality of care, quality improvement, and financial performance, and our healthcare center is a four star facility. Marketing literature and media includes the above and highlights many services offered in our service area.

FINANCIAL HIGHLIGHTS

Table 2

Consolidated Financial Highlights (000s)

	FYE 2013	FYE Budget	FYE 2012	FYE 2011	FYE 2013 vs. Budget	FYE 2013 vs. FYE 2012	FYE 2013 vs. FYE 2011
Operating Revenues	70,604	71,983	71,600	67,711	-2%	-1%	4%
Operating Expenses	71,844	71,202	71,365	67,748	1%	1%	6%
Nonoperating Income	(46)	47	52	270	-198%	-188%	-117%
Net Income (loss)	(1,286)	828	287	233	-255%	-548%	-652%

1) Consolidated Operating Revenues show decreases over budget and FYE 2012. An increase is shown compared to FYE 2011. Stated above are decreases of 2% compared to the Budget, 1% compared to FYE 2012, and an increase of 4% compared to FYE 2011. The decrease in operating revenues is due to the decrease of inpatient and long term care census. Included in operating revenues is the recoupment of $179,000 for recovery audit initiatives from prior year claims and an increase of $190,000 in bad debt and private pay discounts. Also included in operating revenues are meaningful use payments from Medicare and Medicaid. These were $242,000 during FYE 2013 and $1,940,000 during FYE 2012. HCMC plans to attest to Stage 2 during FYE 2014 to receive the additional Medicare funding.
2) Consolidated Operating Expenses show increases over budget and prior years. The increase is 1%, 1%, and 6%, respectively. The primary increase in operating expenses is attributed to increases in depreciation expense and other operating expenses. Depreciation expense increased 6% over FYE 2012 and 11% over FYE 2011 due to purchases of property, plant, and equipment. Major purchases include

an imaging center during FYE 2013 and a surgery center during FYE 2012. Other operating expenses increased 6% over FYE 2012 and 14% over FYE 2011. These expenses are a reflection of professional fees related to call pay and documentation improvement projects as well as physician recruiting fees. A detail review of expenses is included with Table 4.

3) Net Non-Operating Income and Expense activity decreased compared to budget and prior years due to interest expense from new debt incurred during FYE 2012.

4) Consolidated Net Income states a loss for FYE 2013 and gains for FYE 2012 and FYE 2011. Consolidated Net Income was also less than budget. The hospital's net loss was ($494,000) in FYE 2013, and gains of $1,120,000 in FYE 2012 and $522,000 in FYE 2011. The healthcare center incurred a loss of ($600,000) in FYE 2013, a loss of ($466,000) in FYE 2012, and a gain of $149,000 in FYE 2011. The EMS Agency's net loss was ($192,000) in FYE 2013 a loss of ($368,000) in FYE 2012, and a loss of ($437,000) in FYE 2011.

USING THIS REPORT

The financial statements consist of three statements

- A Statement of Net Position, a Statement of Revenue, Expenses and Changes in Net Position, and a Statement of Cash Flows.

STATEMENTS OF NET POSITION AND STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the financial statements will follow and we will answer with this analysis "Is HCMC in a better financial position or a worse financial position as a result of this year's activities?" The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position, will provide information that will answer this question.

The two statements reflect the net position and the changes in such. Net position is defined as the differences between assets and liabilities and is used as a measure of the financial health of our facilities. Over time, increases and decreases in the net position is one of the indicators as to whether we are improving or deteriorating. Financial profits create directly proportional increases in net position where financial losses cause equal decrease in net position.

THE STATEMENT OF CASH FLOWS

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

HCMC'S NET POSITION

Net Position is the difference between assets and liabilities reported in the Statement of Net Position on page 15 and Table 3 below. Net position decreased by ($1,286,000) or by (2%) in FYE 2013 versus an increase of $287,000 or 1% in FYE 2012. This decrease reflects usage of funds for growth in assets and recruiting initiatives as well as the loss incurred from operations. Table 3 below reflects the balance of assets, liabilities, and net position as of FYE 2013, 2012 and FYE 2011. It is important to note that strengthening of net position and financial health is directly driven by the financial profits from operations as well as the investments of and in assets.

Table 3

Consolidated Statements of Net Position (000s)

	FYE 2013	FYE 2012	FYE 2011
Assets:			
Current Assets	$ 15,250	$ 18,234	$ 14,333
Net Property & Equipment	44,887	42,496	42,153
Long Term Investments	6,960	7,228	7,769
Assets Limited to Use	8,811	10,279	13,759
Goodwill and Other Intangible Assets	5,067	5,141	-
Other Assets	1,271	1,313	1,071
Total Assets	82,246	84,691	79,085
Liabilities:			
Current Liabilities	7,632	7,312	7,238
Long-Term Debt	22,064	23,543	17,890
Other Long-Term Liabilities	-	-	408
Total Liabilities	29,696	30,855	25,536
Net Position:			
Net Investment in Capital Assets	21,272	17,497	22,802
Unrestricted	31,278	36,339	30,747
Total Net Position	$ 52,550	$ 53,836	$ 53,549

The decrease in net position in FYE 2013 is stated above as decreases in current assets, long term investments, assets limited to use, goodwill and other intangible assets, and other assets. These decreases occurred as improved turn-around time with receivables and usage of funds to purchase assets and fund growth and recruiting initiatives. Decreases in goodwill and other assets are due to amortization of these accounts. Net property plant and equipment increases were a result of hospital investment in infrastructure and equipment. During FYE 2013 HCMC opened an imaging center to provide for growth strategies in outpatient initiatives and customer service.

OPERATING INCOME

The Statement of Revenue, Expenses, and Changes in Net Position on page 16 and Table 4 below reflect the operating results for FYE 2013 and FYE 2012 and FYE 2011.

TABLE 4
Statements of Revenue and Expenses (000s)

				FYE 2013 vs.	
	FYE 2013	FYE 2012	FYE 2011	FYE 2012	FYE 2011
Operating revenues					
Net patient service revenue	$ 69,116	$ 68,469	$ 66,312	1%	4%
Other revenue	1,488	3,131	1,399	-52%	6%
Total operating revenue	70,604	71,600	67,711	-1%	4%
Operating expenses:					
Salaries and benefits	39,643	39,820	38,352	-0.4%	3%
Medical Supplies and Drugs	14,737	15,103	13,913	-2%	6%
Depreciation and amortization	5,265	4,962	4,748	6%	11%
Other operating expense	12,199	11,480	10,735	6%	14%
Total Operating Expenses	71,844	71,365	67,748	1%	6%
Operating Income (Loss)	(1,240)	235	(37)	-628%	3251%
Non Operating Income-Investments	(46)	52	270	-188%	-117%
Excess of Revenue over Expenses	$ (1,286)	$ 287	$ 233	-548%	-652%

As noted above, we realized a decrease of ($1,573,000) or (548%) in excess expenses over revenues for FYE 2013 compared to FYE 2012. This is a ($1,519,000) or (652%) decrease compared to FYE 2011. Operating revenue decreased 1% and total operating expenses increased 1% compared to FYE 2012. The variances for FYE 2013 are explained in the following paragraphs.

Net Patient Service revenues increased only $647,000 or 1% during FYE 2013. The increase in net patient service revenue is attributed to the purchase of a surgery center during FYE 2012, increase in patient service volumes from outpatient activity at the hospital, service line improvements of efficiencies with documentation, and changes in estimates for cost report settlements. This increase was balanced with declines in admissions, insurance reimbursement changes, and write-off increases related to charity, bad debts, and private pay discounts. Bad Debt and private pay discounts (recorded as a reduction to net patient service revenue) increased $190,000 during FYE 2013 or 2% over prior year. The stagnation of the economy has impacted collections of co-pays, deductibles, and services. The overall increase to net patient service revenues was minimal at 1%.

Other revenue decreased by ($1,643,000) or (52%) in FYE 2013. The hospital received $242,000 in meaningful use funding during FYE 2013 and $1,940,000 during FYE 2012. The hospital plans for its second attestation period during the FYE 2014 year.

Salary and benefit cost decreased ($177,000) or (0.4%) in FYE 2013. Salary increases ranged up to 2%. However, with productivity metrics, management managed FTEs to stay comparable to census projections and maintain salaries comparable to prior year. Benefit decreases spurred from decreases in workers' compensation claims. All other benefits remained comparable to prior year.

Medical supply and drug expense decreased ($366,000) or (2%) in FYE 2013. Medical supplies and drug expense as a percentage to total operating revenues is 21% for all three fiscal years. Medical supply and drug expense is related to usage of supplies as well as changes in cost of supplies. Management continues to review cost control measures and implementation of cost saving programs through our group purchasing organization.

Depreciation and amortization costs increased $303,000 or 6% during FYE 2013 as a result of continuing investment in the facility and equipment. Investment in capital was $7,432,000 for FYE 2013, $5,166,000 for FYE 2012, and $9,790,000 for FYE 2011. FYE 2013 includes building an imaging center and replacement of routine capital items.   FYE 2012 includes routine capital plus a daVinci Robot. FYE 2011 includes a central energy plant expansion.

Other operating expenses increased $719,000 or 6% during FYE 2013. Various expense items increased over the year. Other professional fees increased $277,000 or 9% due to costs associated with physician call pay and documentation improvement projects. Repairs and maintenance increased $219,000 or 10% due to new maintenance contracts associated with new equipment and computerization. Other general expenses which include marketing and physician recruiting increased $402,000 or by 26% due to efforts to promote growth strategies.

In summary, HCMC incurred a consolidated net loss of ($1,286,000). The healthcare industry is very volatile with volumes shifting from inpatient to outpatient as well as changes in the insurance programs to reduce overall costs for the beneficiaries. The healthcare industry is also steeped with regulatory requirements on computerization and costly advances with technologies and pharmaceuticals. HCMC is committed to growth strategies, quality initiatives, and customer service projects to enhance its position as a market leader for our community.

Net non-operating activity decreased ($98,000) or (188%) during FYE 2013 compared to FYE 2012 and decreased ($316,000) or (117%) compared to FYE 2011. Interest expense is a component of non-operating activity and increased to $270,000 in FYE 2013 from $36,000 in FYE 2012, and $88,000 in FYE 2011. The increase is in relation to new debt incurred during FYE 2012. Part of interest expense was capitalized during FYE 2012.

We continue to be fortunate to have assets to invest in physician recruiting and growing programs through marketing initiatives for our service area. We continue to work to improve services and productivity, to contain costs and to promote growth and efficiencies.

Due to ongoing pressure in our economy and reimbursement rates, and due to increased costs associated with pharmacy, implantable devices, and increased capital investment for technology and expansion, we expect to be challenged. We feel that it is imperative to continue to invest in growth and marketing and that we closely manage our controllable costs in order to improve our level of profitability.

Our plan in future years is to strategize and build profit from our assets and operations so that we can meet the requirements that stem from the growing healthcare needs of the patient population that we serve.

HCMC CASH FLOW

The Statement of Cash Flows on page 17 provides information regarding the sources and uses of cash during FYE 2013, FYE 2012, and FYE 2011. HCMC saw an increase in cash flow in FYE 2013 of $219,000 and in FYE 2012 of $130,000. FYE 2011 incurred a decrease in cash flow of ($2,366,000). Changes in cash flows are the result of our investments in physician recruiting, our staff, and our property improvements, plus the generation of cash flow from operating activities.

The net cash provided by operations was $7,231,000 in FYE 2013 versus $621,000 in FYE 2012 and $2,062,000 in FYE 2011. Net cash provided (used) by capital and financing activities were ($9,173,000) in FYE 2013 versus $407,000 in FYE 2012 and ($4,964,000) in FYE 2011. Net cash provided or (used) by investing activities were $2,161,000 in FYE 2013 versus ($898,000) in FYE 2012 and $536,000 in FYE 2011. For FYE 2013, HCMC used the majority of the cash in the manner as stated in Table 5 below, which yielded a net increase in cash of $219,000. The table below shows highlights of uses of cash over FYE 2013, FYE 2012, and FYE 2011.

Table 5

Consolidated Statement of Cash Flows Highlights (000s)

	FYE 2013	FYE 2012	FYE 2011
Proceeds from Debt	$ -	$ 7,000	$ 6,000
Principal Payment on debt	$ 1,513	$ 1,456	$ 1,121
Property and Equipment Purchases	$ 7,432	$ 5,166	$ 9,790
Net Cash Provided (Used) by Investing Activities	$ 2,161	$ (898)	$ 536
Increase (Decrease) in Cash and Cash Equivalents	$ 219	$ 130	$ (2,366)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

At the end of FYE 2013, HCMC had invested $44,887,000 in capital assets net of depreciation. This represents a 6% increase over the FYE 2012 amount of $42,496,000 and a 6% increase over the FYE 2011 amount of $42,153,000. Increases are due to funding a new imaging center, plant expansion, government required computerization, and various equipment. The summary of Capital Assets can be found in note 5 on pages 27-28.

Debt:

At the end of FYE 2013, HCMC has $23,615,000 in long-term debt, including the current portion. This amount was $24,999,000 for FYE 2012 and $19,351,000 for FYE 2011. Short term vendor 0% financing on computer equipment for $129,000 was offered and accepted. Principal payments were $1,514,000. This is a decrease over the FYE 2012 long-term debt balance and an increase over the FYE 2011 balance. The decrease in FYE 2013 from FYE 2012 is the net reduction with debt payment. The increase over FYE 2011 is the net result of an additional $7,000,000 loan for the purchase of a surgery center and a daVinci Robot, and net of payments of debt over the two year period. The summary of long-term debt is in note 7 of the financial statements on pages 29-31.

OTHER ECONOMIC FACTORS

FYE 2013, FYE 2012, and FYE 2011 continue with results from unstable economic conditions. The local area is impacted by the changes in insurance policy, the rising cost of recruiting physicians, and the rising cost associated with computerization. The changes in insurance policy impacts patients spending abilities and the differing of health care needs.

We as a community healthcare provider strive to help recruit industry and attract retirement ventures to the area by continuing to offer quality healthcare at an affordable price.

CONTRACTING HCMC'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of HCMC finances and to show good stewardship of the resources we possess. If you have any questions regarding this report contact Henry County Medical Center's Chief Financial Officer, at Henry County Medical Center, 301 Tyson Avenue, P.O. Box 1030, Paris, TN 38242.

NONREQUIRED SUPPLEMENTARY INFORMATION – LISTING OF 2012 - 2013 BOARD MEMBERS AND HOSPITAL MANAGEMENT

Felix Wichlan, Chairman
Beverly Neighbors, Vice Chairman
Scott Whitby, MD
David Hessing, Attorney
Lisa Casteel, CFO
Ed Ledden, HR Director
Andrew Lundberg, MD, Chief of Staff
Kreg Kyle
James E. Travis
Tory Daughrity, Marketing Director
Thomas Gee, CEO
Stephen O'Neal, RN, DON
Sandy Ray, HCHC Administrator

HENRY COUNTY MEDICAL CENTER

(a component unit of Henry County)

Financial Statements and Supplemental Schedules

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

HENRY COUNTY MEDICAL CENTER
(a component unit of Henry County)

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Henry County Medical Center
Paris, Tennessee:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Henry County Medical Center (the "Medical Center"), a component unit of Henry County, Tennessee, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Medical Center'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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Henry County Medical Center as of June 30, 2013 and 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the years 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 Management's Discussion and Analysis on pages 3-14 be presented to supplement the basic financial statements. Such information, although not 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 operation, 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.

Supplementary Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 supplemental schedules are 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 September 19, 2013 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the Medical Center's internal control over financial reporting and compliance.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 19, 2013

HENRY COUNTY MEDICAL CENTER
(a component unit of Henry County)

Statements of Net Position

June 30, 2013 and 2012

	2013	2012
Assets:		
Cash and cash equivalents	$ 1,166,822	$ 948,280
Assets limited as to use and that are required for current liabilities	1,702,846	1,456,181
Patient accounts receivable, less allowance for uncollectible accounts of $9,661,000 and $9,823,000 in 2013 and 2012, respectively	9,074,381	10,727,902
Other receivable	-	1,543,634
Inventories	2,184,887	2,111,494
Prepaid expenses and other current assets	484,362	775,416
Estimated third-party payor settlements	636,043	671,438
Total current assets	15,249,341	18,234,345
Property and equipment, net	44,886,994	42,495,732
Long-term investments	6,960,300	7,227,537
Assets limited as to use, excluding assets required for current liabilities	8,811,190	10,279,199
Goodwill and other intangible assets	5,067,295	5,141,270
Other assets	1,271,299	1,312,003
Total assets	82,246,419	84,690,086
Liabilities:		
Current portion of long-term debt	1,550,805	1,456,181
Accounts payable	1,782,452	2,000,418
Accrued expenses	4,298,874	3,854,981
Total current liabilities	7,632,131	7,311,580
Long-term debt, excluding current portion	22,064,415	23,542,638
Total liabilities	29,696,546	30,854,218
Net position:		
Net investment in capital assets	21,271,774	17,496,913
Unrestricted	31,278,099	36,338,955
Total net position	$ 52,549,873	$ 53,835,868

See accompanying notes to the financial statements.

HENRY COUNTY MEDICAL CENTER
(a component unit of Henry County)

Statements of Revenue, Expenses and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenue:		
Patient service revenue, net of provision for bad debts of $6,217,956 and $7,152,486 in 2013 and 2012, respectively	$ 69,115,846	$ 68,469,121
Other revenue	1,487,874	3,130,559
Total operating revenue	70,603,720	71,599,680
Expenses:		
Salaries and wages	29,887,429	29,847,798
Employee benefits	9,755,818	9,971,615
Supplies	14,737,248	15,102,507
Professional fees	3,441,771	3,165,039
Physician fees	963,482	747,511
Utilities and telephone	1,604,507	1,565,888
Repairs and maintenance	2,450,439	2,231,627
Leases and rentals	1,090,757	1,438,447
Insurance	386,932	468,841
Depreciation and amortization	5,264,749	4,962,162
Other expenses	1,926,982	1,525,235
Services tax	333,750	338,201
Total expenses	71,843,864	71,364,871
Operating income (loss)	(1,240,144)	234,809
Nonoperating income (expense):		
Investment income	113,975	90,227
Interest expense	(270,427)	(35,817)
Other nonoperating income (expense)	110,601	(2,189)
Total nonoperating income (expense)	(45,851)	52,221
Excess of revenue over (under) expenses	(1,285,995)	287,030
Net position at beginning of year	53,835,868	53,548,838
Net position at end of year	$ 52,549,873	$ 53,835,868

See accompanying notes to the financial statements.

HENRY COUNTY MEDICAL CENTER
(a component unit of Henry County)

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 72,348,396	$ 65,541,827
Payments to suppliers and employees	(64,263,841)	(66,010,403)
Other receipts and payments, net	(853,756)	1,089,703
Net cash provided by operating activities	7,230,799	621,127
Cash flows from capital and related financing activities:		
Proceeds from long-term debt	-	7,000,000
Principal paid on long-term debt	(1,512,761)	(1,455,513)
Interest paid on long-term debt	(270,427)	(35,817)
Proceeds from disposal of property and equipment	41,800	63,695
Purchases of property and equipment	(7,431,612)	(5,165,615)
Net cash provided (used) by capital and related financing activities	(9,173,000)	406,750
Cash flows from investing activities:		
Distributions from joint venture	430,000	675,000
Proceeds from investments	306,823	514,752
Decrease in assets limited as to use	1,221,344	3,483,866
Investment income	113,975	90,227
Other	110,601	(2,189)
Purchase of Kentucky Lake Surgery Center, LLC (see Note 1(b)), net of cash acquired	-	(5,659,196)
Purchase of Eagle Creek Clinic (see Note 1(b))	(22,000)	-
Net cash provided (used) by investing activities	2,160,743	(897,540)
Increase in cash and cash equivalents	218,542	130,337
Cash and cash equivalents at beginning of year	948,280	817,943
Cash and cash equivalents at end of year	$ 1,166,822	$ 948,280
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	$ (1,240,144)	$ 234,809
Adjustments to reconcile operating income (loss) to cash provided by operating activities:		
Depreciation and amortization	5,264,749	4,962,162
Provision for bad debts	6,217,956	7,152,486
(Gain) loss on disposal of property and equipment	(41,062)	168,492
Equity in earnings of joint venture	(469,586)	(648,296)
(Increase) decrease in operating assets, net of the effects of acquisition (see Note 1(b)):		
Patient accounts receivable and other receivables	(3,020,801)	(10,011,225)
Estimated third-party payor settlements	35,395	(68,555)
Inventories	(73,393)	(198,604)
Prepaid expenses and other current assets	291,054	(399,564)
Other assets	40,704	(240,114)
Increase (decrease) in operating liabilities, net of the effects of acquisition (see Note 1(b)):		
Accounts payable	(217,966)	53,779
Accrued expenses	443,893	24,312
Other long-term liabilities	-	(408,555)
Net cash provided by operating activities	$ 7,230,799	$ 621,127
Supplemental schedule of noncash investing, capital and financing activities:		
Capital lease obligation for equipment	$ 129,162	$ 103,804

See accompanying notes to the financial statements.

(1) Nature of operations

(a) Organization

Henry County Medical Center (Medical Center) is a political subdivision of Henry County, Tennessee (County). The Medical Center provides comprehensive health care services through the operation of an acute care hospital (Hospital), nursing home (Healthcare Center), home health agency (HHA), and emergency medical services agency (EMS). It is governed by a Board of Trustees under the authority of the County Commission of Henry County, Tennessee and the Henry County Hospital District. The Board of County Commissioners appoints the Board of Trustees of the Medical Center which may not issue debt without the County's approval. Under accounting principles generally accepted in the United States of America, the Medical Center constitutes a component unit of the County for financial reporting purposes.

(b) Acquisition

On April 25, 2013, the Medical Center acquired certain assets of Eagle Creek Clinic (Clinic) for $22,000. This amount was allocated entirely to property and equipment.

On December 30, 2011, the Medical Center acquired certain assets of Kentucky Lake Surgery Center, LLC (Center) for $5,800,000. The purchase price was funded through the issuance of debt (see Note 7). The Medical Center incurred various transaction expenses approximating $72,000 which were included in operating expenses on the accompanying statement of revenue, expenses and changes in net position. This transaction has been accounted for as an acquisition and, accordingly, the acquisition price was allocated to the assets acquired based upon the fair value of the assets at the date of acquisition. No liabilities were assumed in the transaction. The acquisition resulted in excess costs over the fair value of the assets acquired, which was recorded as goodwill and other intangible assets in the accompanying statement of net position. The intangible assets included a certificate of need (CON) and non-compete agreements. The non-compete will be amortized over 7 years which is the term of the agreements. The acquisition was allocated as follows:

Cash	$ 140,804
Patient receivables	$ 107,360
Inventories	$ 140,315
Prepaid expenses	$ 2,521
Property and equipment	$ 230,743
Goodwill and other intangible assets	$ 5,178,257

(2) Summary of significant accounting policies

(a) Basis of presentation

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis, which is an economic resources measurement focus approach to accounting. In December 2010, Governmental Accounting Standards Board ("GASB") issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position.* GASB 62 and 63 were effective for periods beginning after December 15, 2011. GASB 62 makes the GASB *Accounting Standards Codification* the sole source of authoritative accounting technical literature for governmental entities in the United States of America.

(b) Inventories

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

(c) Assets limited as to use

Assets limited as to use include cash and cash equivalents designated by the Board of Trustees for future capital improvements and debt repayment, over which the Board retains control and may at its discretion use for other purposes. Investments are reported at fair value.

(d) Cash, cash equivalents and investments

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

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

At June 30, 2013 and 2012, the total carrying value of the Medical Center's cash, cash equivalents and investments was $17,969,543 and $19,279,168, respectively, and the bank balance was $18,631,460 and $20,205,915, respectively. The entire financial institution balance as of June 30, 2013, was covered by federal depository insurance or by collateral held by the trustee in the Medical Center's name.

A fifty percent interest in a joint venture that provides cancer care services in the Henry County area is included in long-term investments on the accompanying balance sheet. This investment is accounted for under the equity method. The investment balance included in long-term investments is $671,615 and $632,029 at June 30, 2013 and 2012, respectively.

(e) Fair value measurements

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). While a majority of the Medical Center's assets whose use is limited and investments are cash equivalents, the Medical Center has approximately $10,700,000 and $11,500,000 as of June 30, 2013 and 2012, respectively, in certificates of deposit that would be classified as Level 2 under the hierarchy above. The Medical Center does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2013 or 2012.

(f) Property and equipment

Property and equipment acquisitions are recorded at cost. The Medical Center capitalizes purchases that cost a minimum of $500 and have a useful life greater than three years. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 5-20 years; buildings and improvements 5-40 years; fixed equipment 10-20 years; and major movable equipment 5-20 years.

(g) Goodwill and other intangible assets

Goodwill represents the excess of cost over the fair value of net position acquired in business combinations recorded as purchases (see Note 1(b)). The Medical Center evaluates goodwill and other intangible assets for impairment on an annual basis or more frequently if impairment indicators arise. In the event goodwill and other intangible assets are considered to be impaired, a charge to earnings would be recorded during the period in which management makes such impairment assessment.

Other intangible assets consist of a certificate of need and non-compete agreements. The non-competes are amortized over their respective useful life on a straight-line basis.

(h) Patient service revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient service revenue is net of contractual adjustments and policy discounts of approximately $130,400,000 and $120,500,000 for the years ended June 30, 2013 and 2012, respectively. Approximately 56% and 61% of net patient service revenue was from Medicare for the years ended June 30, 2013 and 2012, respectively. Approximately 11% and 13% of net patient service revenue was from Medicaid/TennCare for the years ended June 30, 2013 and 2012, respectively.

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. These costs are estimated based on the ratio of total costs to gross charges and amounted to approximately $1,000,000 for the years ended June 30, 2013 and 2012.

(i) Operating activities

The Medical Center defines operating activities as reported on the Statements of Revenue, Expenses and Changes in Net Position as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including investment income and interest expense, are considered non-operating revenue and expenses.

(j) Costs of borrowing

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

(k) Pension plan

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

(l) Compensated absences

The Medical Center provides its full-time employees with paid days off for holiday, vacation, sick, and bereavement absences. The paid days off begin accruing after a three month probationary period and are based on the table which follows. Such days may be taken only after the employee has earned them. All earned days must be taken annually, except that an employee may carry forward up to the normal number of hours worked in a four-week period. Such liabilities have been accrued in the accompanying balance sheet.

Years of service	Days earned per year
0-5	20
5-10	25
10 or more	30

(m) Risk management

The Medical Center is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance is purchased for claims arising from such matters. The Medical Center is self-insured for employee health and workers' compensation claims and judgments as discussed in Note 9.

(n) Net position

All resources that are not restricted by donors are included in unrestricted net position. Resources temporarily restricted by donors for specific purposes are reported as temporarily restricted net position. When specific purposes are achieved, either through passage of a stipulated time or the purpose for restriction is accomplished, they are classified to unrestricted net position and reported in the statement of revenues, expenses and changes in net position. Resources temporarily restricted by donors for additions to land, building and equipment are initially reported as temporarily restricted net position and are transferred to unrestricted net position when expended. Donor-imposed restrictions which stipulate that the resources be maintained permanently are reported as permanently restricted net position. Investment income for the permanently restricted net position is classified as either temporarily restricted or unrestricted based on the intent of the donor. As of June 30, 2013 and 2012, there were no permanently or temporarily restricted net position.

(o) Income taxes

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

(p) Performance indicator

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

(q) Long-lived assets

Management evaluates the recoverability of its investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(r) Adoption of new accounting pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement amends accounting standards relating to the application of FASB Statements that do not contradict GASB pronouncements and incorporates into the GASB authoritative literature certain accounting and financial reporting guidance to bring all authoritative literature together in one place.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and identifies net position as the residual of all other elements presented in a statement of financial position.

These amendments were effective for financial statements for fiscal years beginning after December 15, 2011. Therefore the Medical Center adopted these standards at the beginning of fiscal year 2013. The adoption of these accounting standards did not have a material impact on the Medical Center's financial statements.

(s) New accounting pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities and is effective for financial statements for fiscal years beginning after December 15, 2012. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2014.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement relates to accounting and financial reporting for government combinations and disposals of government operations and is effective for financial statements for fiscal years beginning after December 15, 2013. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2015.

In March 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement relates to accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees and is effective for financial statements for fiscal years beginning after June 15, 2013. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2014.

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

(t) 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.

(u) Reclassifications

Certain reclassifications have been made to the 2012 financial statements in order for them to conform to the 2013 presentation. These reclassifications have no effect on net position or changes in net position as previously reported.

(v) Events occurring after reporting date

The Medical Center has evaluated events and transactions that occurred between June 30, 2013 and September 19, 2013, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Third-party reimbursement programs

The Medical Center receives revenue under various third-party reimbursement programs which include Medicare, TennCare, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. The adjustments resulting from tentative or final settlements to estimated reimbursement amounts resulted in an increase to revenue of approximately $54,000 and $146,000 for the years ended June 30, 2013 and 2012, respectively.

(a) Medicare

The Medical Center is paid for substantially all services rendered to inpatient Medicare program beneficiaries under prospectively determined rates-per-discharge. Those rates vary according to a classification system that is based on clinical, diagnostic, and other factors. The Medical Center is paid for outpatient, emergency medical services and psychiatric services under a Medicare program known as the Ambulatory Payment Classification (APC) system. Under the APC system, outpatient services are classified into APC categories based on standard procedure codes (CPT-4 Codes) for the service provided and payment for the APC categories are determined using prospectively determined Federal payment rates adjusted for geographical area wage differences. The Medical Center receives cash payments at an interim rate with final settlement determined after the Medical Center's submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The Medical Center's classification of patients under the Medicare Prospective Payment System and the appropriateness of the patients' admissions are subject to validation reviews by the Medicare peer review organization.

(b) Medicaid

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

(c) TennCare

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

(d) Commercial Payors

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

(e) Credit Concentration

The Medical Center grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. At June 30, 2013 and 2012, the Medical Center had net receivables from the Federal Government (Medicare) of approximately $3,100,000 and $4,200,000, respectively, and from Medicaid/TennCare of approximately $700,000 and $1,200,000, respectively.

(f) Meaningful use payments from Medicare and Medicaid

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for hospitals that implemented "meaningfully use" certified electronic health record (EHR) technology. In order to receive incentive payments, a hospital which is able to meet the meaningful use criteria must attest that during the EHR reporting period, the hospital used certified EHR technology and specify the technology used, satisfied the required meaningful use objectives and associated measures for the applicable stage, and must specify the EHR reporting period and provide the result of each applicable measure for all patients admitted to the inpatient or emergency department of the hospital during the EHR reporting period for which a selected measure is applicable. A hospital may receive an incentive payment for up to four years, provided it successfully demonstrates meaningful use of certified EHR technology for the EHR reporting period. Hospitals that adopt a certified EHR system and are meaningful users can begin receiving incentive payments in any federal fiscal year from 2011 (October 1, 2010 - September 30, 2011) to 2015; however, the incentive payments will decrease for hospitals that first start receiving payments in federal fiscal year 2014 or 2015.

The Medical Center met the meaningful use criteria during 2013 and 2012. As a result, the Medical Center recognized income of approximately $242,000 and $400,000 from Medicaid in 2013 and 2012, respectively. The Medical Center recognized approximately $1,540,000 from Medicare in 2012. The Medical Center had a receivable of approximately $1,540,000 from Medicare related to the meaningful use incentive as of June 30, 2012 which was received in July 2012. There are no receivables related to meaningful use at June 30, 2013. The Medical Center expects to attest for Stage 2 Medicare meaningful use during 2014. The income is reported as other revenue on the accompanying statements of revenue, expenses and changes in net position.

(4) Inventories

A summary of inventories as of June 30, 2013 and 2012 is as follows:

	2013	2012
Medical stores	$ 118,309	$ 126,611
Dietary	32,736	28,289
Departmental	2,033,842	1,956,594
	$ 2,184,887	$ 2,111,494

(5) Property and equipment

The major classifications and changes in property and equipment as of and for the years ended June 30, 2013 and 2012 are as follows:

	Balance at June 30, 2012	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2013
Land	$ 892,250	$ -	$ (40,817)	$ 851,433
Land improvements	1,244,196	350,453	-	1,594,649
Buildings and improvements	56,025,784	2,936,787	-	58,962,571
Machinery and equipment	32,774,227	5,674,576	(133,507)	38,315,296
	90,936,457	8,961,816	(174,324)	99,723,949
Less allowance for depreciation and amortization:				
Land improvements	(1,141,827)	(21,149)	-	(1,162,976)
Buildings and improvements	(23,751,371)	(1,977,752)	-	(25,729,123)
Machinery and equipment	(25,256,477)	(3,191,873)	173,586	(28,274,764)
	(50,149,675)	(5,190,774)	173,586	(55,166,863)
	40,786,782	3,771,042	(738)	44,557,086
Construction in progress	1,708,950	2,562,260	(3,941,302)	329,908
	$ 42,495,732	$ 6,333,302	$ (3,942,040)	$ 44,886,994

	Balance at June 30, 2011	Additions/ Transfers	Placed in Service/ Retirements	Balance at June 30, 2012
Land	$ 655,041	$ 237,209	$ -	$ 892,250
Land improvements	1,232,786	11,410	-	1,244,196
Buildings and improvements	48,025,884	8,003,848	(3,948)	56,025,784
Machinery and equipment	30,126,822	3,125,538	(478,133)	32,774,227
	80,040,533	11,378,005	(482,081)	90,936,457
Less allowance for depreciation and amortization:				
Land improvements	(1,117,428)	(24,399)	-	(1,141,827)
Buildings and improvements	(22,088,453)	(1,662,918)	-	(23,751,371)
Machinery and equipment	(22,268,514)	(3,237,857)	249,894	(25,256,477)
	(45,474,395)	(4,925,174)	249,894	(50,149,675)
	34,566,138	6,452,831	(232,187)	40,786,782
Construction in progress	7,586,794	2,259,576	(8,137,420)	1,708,950
	$ 42,152,932	$ 8,712,407	$ (8,369,607)	$ 42,495,732

The Medical Center is in the process of constructing various expansions and additions to the existing facilities. As of June 30, 2013, the total cost of these projects is expected to be approximately $460,000. Approximately $220,000 of interest costs were capitalized during the year ended June 30, 2012. No interest costs were capitalized during the year ended June 30, 2013.

(6) Other intangible assets

Other intangible assets include non-compete agreements with 7 year lives. As of June 30, 2013 and 2012, the non-compete agreements have a balance of $406,863 and $480,838 which is net of accumulated amortization of $110,963 and $36,988, respectively. Amortization expense totaled $73,975 and $36,988 in 2013 and 2012, respectively. Future amortization expense of the net carrying amount of the non-compete agreement is $73,975 per year.

(7) Long-term debt

A schedule of changes in the Medical Center's long-term debt as of and for the years ended June 30, 2013 and 2012 is as follows:

	Balance at June 30, 2012	Additions	Reductions	Balance at June 30, 2013	Amounts Due Within One Year
Public Building Authority of the County of Montgomery, TN - Series 2002	$ 12,411,000	$ -	$ (575,000)	$ 11,836,000	$ 604,000
General Obligation Hospital Revenue and Tax Capital Outlay Note - Series 2011	5,514,290	-	(431,280)	5,083,010	445,595
Public Building Authority of the City of Clarksville, TN - Series 2012	7,000,000	-	(398,000)	6,602,000	407,000
Other debt	73,529	129,162	(108,481)	94,210	94,210
	$ 24,998,819	$ 129,162	$ (1,512,761)	$ 23,615,220	$ 1,550,805

	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Amounts Due Within One Year
Public Building Authority of the County of Montgomery, TN - Series 1997	$ 428,000	$ -	$ (428,000)	$ -	$ -
Public Building Authority of the County of Montgomery, TN - Series 2002	12,959,000	-	(548,000)	12,411,000	575,000
General Obligation Hospital Revenue and Tax Capital Outlay Note - Series 2011	5,932,278	-	(417,988)	5,514,290	431,281
Public Building Authority of the City of Clarksville, TN - Series 2012	-	7,000,000	-	7,000,000	398,000
Other debt	31,250	103,804	(61,525)	73,529	51,900
	$ 19,350,528	$ 7,103,804	$ (1,455,513)	$ 24,998,819	$ 1,456,181

During September 1997, the Medical Center entered into a loan agreement with the Public Building Authority of the County of Montgomery, Tennessee (Building Authority) whereby, the Building Authority loaned the Medical Center $4,500,000 for the construction, acquisition, and enlargement of its buildings, structures and facilities. As of June 30, 2011, the Medical Center had outstanding borrowings of $428,000 under this agreement. The remaining balance was paid during the fiscal year ending June 30, 2012.

During June 2002, the Medical Center entered into an additional loan agreement with the Public Building Authority of the County of Montgomery, Tennessee (Building Authority) whereby, the Building Authority agreed to loan the Medical Center up to $16,500,000 for the construction, acquisition, and enlargement of its buildings, structures, and facilities. As of June 30, 2013 and 2012, the Medical Center had outstanding borrowings of $11,836,000 and $12,411,000, respectively, under this agreement. The loan agreement bears interest at an adjustable rate (0.33% as of June 30, 2013), and is due in annual installments varying between $604,000 and $1,139,000 through May 25, 2027. The adjustable interest rate is adjusted daily as determined by the remarketing agent.

During April 2011, the Medical Center entered into a General Obligation Hospital Revenue and Tax Capital Outlay Note in the amount of $6,000,000 secured by the general obligation of Henry County for the construction and enlargement of its buildings, structures, and facilities. As of June 30, 2013 and 2012, the Medical Center had outstanding borrowings of $5,083,010 and $5,514,290 under this obligation. The note bears interest at a fixed rate of 3.27% per annum, and is due in monthly installments of $50,431 through April 1, 2023.

During January 2012, the Medical Center entered into a loan agreement with the Public Building Authority of the City of Clarksville, Tennessee (Building Authority) whereby, the Building Authority agreed to loan the Medical Center up to $7,000,000 to provide funding to finance certain public works projects, including the acquisition of the Kentucky Lake Surgery Center, LLC. As of June 30, 2013 and 2012, the Medical center had outstanding borrowings of $6,602,000 and $7,000,000 under this obligation. The note bears interest at an adjustable rate (0.77% as of June 30, 2013), and is due in annual installments varying between $407,000 and $543,000 through June 1, 2027. The adjustable interest rate is adjusted weekly as determined by the remarketing agent.

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

A summary of future maturities and interest of long-term debt as of June 30, 2013 is as follows:

Year	Principal	Estimated Interest	Total Payments
2014	$ 1,550,805	$ 246,000	$ 1,796,805
2015	1,512,000	226,000	1,738,000
2016	1,569,000	206,000	1,775,000
2017	1,627,000	185,000	1,812,000
2018	1,687,000	161,000	1,848,000
2019 - 2023	9,331,000	452,000	9,783,000
2024 - 2027	6,338,415	62,000	6,400,415
	$ 23,615,220	$ 1,538,000	$ 25,153,220

(8) Employee benefit plans

Pension plan

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at http://www.treasury.state.tn.us/tcrs/PS/.

The Medical Center is a political subdivision of the County. The Medical Center's funding policy and schedule of pension plan funding progress have not been included within the financial statements as these amounts are aggregated with the County. The Henry County Annual Financial Report should be read to obtain the aggregated information related to funding policy and schedule of pension plan funding progress. For the years ended June 30, 2013 and 2012, the Medical Center's annual pension costs were approximately $1,776,000 and $1,782,000, respectively.

Deferred compensation plans

Effective January 1, 2002, the Medical Center established a deferred compensation plan (the "Plan") under Section 457 of the Internal Revenue Code. Employees become eligible to participate in the Plan on their first day of employment. The Medical Center does not make any contributions to the Plan nor does it bear any of the administrative costs.

During 2010, the Medical Center implemented a physician call pay plan whereas the Medical Center would make contributions to the plan on behalf of the physicians. Effective July 1, 2011, the deferred element of the physician on-call plan was terminated and participants are paid quarterly. The deferred compensation was paid to the respective physicians during 2012. The Medical Center still holds the life insurance policies and the underlying assets which are invested in mutual funds and amounted to approximately $850,000 and 470,000 at June 30, 2013 and 2012, respectively. These assets are included in other assets in the accompanying statements of net position.

(9) Commitments and contingencies

Lease commitments

The Medical Center leases various equipment under operating lease agreements. Rent expense was $1,090,757 and $1,438,447 in 2013 and 2012, respectively.

A summary of future minimum payments under these equipment leases as of June 30, 2013 is as follows:

Year	
2014	$ 822,000
2015	716,000
2016	445,000
2017	408,000
2018	383,000
2019 and later years	1,019,000
	$ 3,793,000

Insurance

The Medical Center maintains commercial insurance on a claims-made basis for medical malpractice liabilities. Insurance coverages are $300,000 individually and $900,000 in the aggregate annually, which is consistent with current litigation settlement limitations established by the State of Tennessee for governmental entities. Management intends to maintain such coverages in the future. The Medical Center is involved in litigation arising in the ordinary course of business; however, management is of the opinion that insurance coverages are adequate to cover any potential losses on asserted claims. Management is unaware of any incidents which would ultimately result in a loss in excess of the Medical Center's insurance coverages.

The Medical Center is self-insured for a portion of employee medical and other healthcare benefits and workers' compensation claims. The risk of loss retained by the Medical Center is limited to $130,000 and $350,000 per occurrence for employee health and workers' compensation, respectively. Beginning on July 1, 2013, the risk of loss related to workers' compensation increased to $400,000. The Medical Center has purchased excess insurance to provide coverage for claims in excess of the self-insured retention. Contributions by the Medical Center for employee health are based on actuarial estimates, while contributions for workers' compensation are based on actual claims experience. Claims expense and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include a provision for estimated claims incurred but not reported. Reserves included within accrued expenses related to employee medical and other healthcare benefits amounted to $950,000 in 2013 and 2012, respectively. Reserves included within accrued expenses related to workers' compensation claims amounted to $434,867 and $384,867 in 2013 and 2012, respectively.

Healthcare Industry

The delivery of personal health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Company and its subsidiaries are insured with respect to medical malpractice risk on a claims-made basis. The Company also maintains insurance for general liability, director and officer liability and property. Certain policies are subject to deductibles. In addition to the insurance coverage provided, the Company indemnifies certain officers and directors for actions taken on behalf of the Company and its subsidiaries. Management is not aware of any claims against it or its subsidiaries which would have a material financial impact.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Company is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

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

The Centers for Medicare and Medicaid Services ("CMS") have implemented a Recovery Audit Contractors ("RAC") program. The purpose of the program is to reduce improper Medicare payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. While management believes that all Medicare billings are proper and adequate support is maintained, certain aspects of Medicare billing, coding and support are subject to interpretation and may be viewed differently by the RAC auditors. As the amount of any recovery is unknown, management has not recorded any reserves related to the RAC audit at this time.

Healthcare Reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act ("collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Company's operations.

(10) Functional expenses

The following is a summary of management's functional classification of operating expenses:

	2013	2012
Healthcare services	$ 47,054,051	$ 46,623,429
General and administrative	24,789,813	24,741,442
	$ 71,843,864	$ 71,364,871

HENRY COUNTY MEDICAL CENTER
Hospital and HHA

Schedule of Net Position Information

June 30, 2013 and 2012

	2013	2012
Assets:		
Current assets:		
Cash and cash equivalents	$ 327,577	$ 225,161
Assets limited as to use and that are required for current liabilities	1,702,846	1,456,181
Patient accounts receivable, net	7,635,023	8,886,936
Estimated third-party payor settlements	588,712	699,438
Other accounts receivable	-	1,543,634
Due from Healthcare Center	1,052,846	594,918
Due from EMS Agency	3,391,302	3,182,865
Inventories	2,129,915	2,057,659
Prepaid expenses and other current assets	450,889	736,921
Total current assets	17,279,110	19,383,713
Property and equipment, net	42,855,481	40,469,259
Long-term investments	6,960,300	7,227,537
Assets limited as to use, excluding assets required for current liabilities	8,811,190	10,279,199
Goodwill and other intangible assets	5,067,295	5,141,270
Other assets	1,271,299	1,312,003
Total assets	82,244,675	83,812,981
Liabilities:		
Current portion of long-term debt	1,550,805	1,456,181
Accounts payable	1,651,077	1,820,830
Accrued expenses	3,716,085	3,236,804
Total current liabilities	6,917,967	6,513,815
Long-term debt, excluding current portion	22,064,415	23,542,638
Total liabilities	28,982,382	30,056,453
Net position:		
Net investment in capital assets	19,240,261	15,470,440
Unrestricted	34,022,032	38,286,088
Total net position	$ 53,262,293	$ 53,756,528

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Hospital and HHA

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

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenue:		
Patient service revenue, net of provision for bad debts of $5,553,505 and $6,644,330 in 2013 and 2012, respectively	$ 58,603,088	$ 57,447,603
Management fee revenue	96,000	96,000
Other revenue	1,469,306	3,110,402
Total operating revenue	60,168,394	60,654,005
Expenses:		
Salaries and wages	24,050,939	23,605,653
Employee benefits	7,690,795	7,893,212
Supplies	13,390,875	13,709,752
Professional fees	3,290,068	2,997,585
Physician fees	931,282	716,511
Utilities and telephone	1,378,838	1,319,013
Repairs and maintenance	2,290,907	2,061,043
Leases and rentals	1,005,095	1,383,996
Insurance	289,084	333,439
Depreciation and amortization	4,906,778	4,597,365
Other expenses	1,873,872	1,469,669
Total expenses	61,098,533	60,087,238
Operating income (loss)	(930,139)	566,767
Nonoperating income (expense):		
Investment income	112,419	89,760
Interest expense	(270,427)	(35,817)
Other nonoperating income	593,912	499,483
Total nonoperating income (expense)	435,904	553,426
Excess of revenue over expenses	(494,235)	1,120,193
Net position at beginning of year	53,756,528	52,636,335
Net position at end of year	$ 53,262,293	$ 53,756,528

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Healthcare Center

Schedule of Net Position Information

June 30, 2013 and 2012

	2013	2012
Assets:		
Current assets:		
Cash and cash equivalents	$ 716,506	$ 672,252
Patient accounts receivable, net	914,734	1,205,889
Estimated third-party payor settlements	47,331	-
Inventories	36,225	35,286
Prepaid expenses and other current assets	8,976	9,709
Total current assets	1,723,772	1,923,136
Property and equipment, net	1,842,204	1,864,992
Total assets	3,565,976	3,788,128
Liabilities:		
Accounts payable	109,283	156,083
Accrued expenses	518,835	524,026
Estimated third-party payor settlements	-	28,000
Due to Medical Center	1,052,846	594,918
Total current liabilities	1,680,964	1,303,027
Net position:		
Net investment in capital assets	1,842,204	1,864,992
Unrestricted	42,808	620,109
Total net position	$ 1,885,012	$ 2,485,101

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Healthcare Center

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

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenue:		
Patient service revenue, net of provision for bad debts of $6,439 and $23,369 in 2013 and 2012, respectively	$ 8,492,700	$ 9,191,458
Other revenue	18,568	20,157
Total operating revenue	8,511,268	9,211,615
Expenses:		
Salaries and wages	4,602,347	5,004,085
Employee benefits	1,643,400	1,680,190
Supplies	1,190,242	1,234,969
Professional fees	93,193	104,440
Physician fees	26,200	25,000
Utilities and telephone	197,041	219,038
Repairs and maintenance	95,460	95,189
Leases and rentals	57,706	26,079
Insurance	59,347	100,551
Depreciation and amortization	288,334	300,182
Other expenses	42,415	48,031
Services tax	333,750	338,201
Total expenses	8,629,435	9,175,955
Operating income (loss)	(118,167)	35,660
Nonoperating income (expense):		
Investment income	1,389	408
Other nonoperating expense	(483,311)	(501,672)
Total nonoperating income (expense)	(481,922)	(501,264)
Excess of expenses over revenue	(600,089)	(465,604)
Net position at beginning of year	2,485,101	2,950,705
Net position at end of year	$ 1,885,012	$ 2,485,101

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
EMS Agency

Schedule of Net Position Information

June 30, 2013 and 2012

	2013	2012
Assets:		
Current assets:		
Cash and cash equivalents	$ 122,739	$ 50,867
Patient accounts receivable, net	524,624	635,077
Inventories	18,747	18,549
Prepaid expenses and other current assets	24,497	28,786
Total current assets	690,607	733,279
Property and equipment, net	189,309	161,481
Total assets	879,916	894,760
Liabilities:		
Accounts payable	22,092	23,505
Accrued expenses	63,954	94,151
Due to Medical Center	3,391,302	3,182,865
Total current liabilities	3,477,348	3,300,521
Net Position:		
Net investment in capital assets	189,309	161,481
Unrestricted	(2,786,741)	(2,567,242)
Total net position	$ (2,597,432)	$ (2,405,761)

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
EMS Agency

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

Years ended June 30, 2013 and 2012

	2013	2012
Patient service revenue, net of provision for bad debts of $658,012 and $484,787 in 2013 and 2012, respectively	$ 2,020,058	$ 1,830,060
Expenses:		
Salaries and wages	1,234,143	1,238,060
Employee benefits	421,623	398,213
Supplies	156,131	157,786
Professional fees	58,510	63,014
Physician fees	6,000	6,000
Utilities and telephone	28,628	27,837
Repairs and maintenance	64,072	75,395
Leases and rentals	27,956	28,372
Insurance	38,501	34,851
Depreciation and amortization	69,637	64,615
Other expenses	10,695	7,535
Management fees	96,000	96,000
Total expenses	2,211,896	2,197,678
Operating loss	(191,838)	(367,618)
Nonoperating income - investment income	167	59
Excess of expenses over revenues	(191,671)	(367,559)
Net position at beginning of year	(2,405,761)	(2,038,202)
Net position at end of year	$ (2,597,432)	$ (2,405,761)

See accompanying independent auditors' report.

HENRY COUNTY MEDICAL CENTER
Psychiatric Department

Schedule of Revenue and Expenses Information

Years ended June 30, 2013 and 2012

	2013	2012
Patient service revenue(1)	$ 3,826,864	$ 3,716,773
Operating expenses(1):		
Salaries and wages	745,612	849,248
Employee benefits	56,762	65,329
Professional services	106,000	104,660
Rent	1,085	1,142
Office supplies	1,881	1,866
Medical supplies	5,425	5,095
Pantry	7,777	8,086
Small equipment	806	287
Miscellaneous	7,366	1,503
Total expenses	932,714	1,037,216
Excess of revenue over expenses(1)	$ 2,894,150	$ 2,679,557

(1) The above information is summarized from the departmental report. It does not include estimates for contractual adjustments or bad debt expense, nor does it include any allocation of the costs incurred by the general service departments.

See accompanying independent auditors' report.

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*

The Board of Trustees
Henry County Medical Center
Paris, 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 the business-type activities of Henry County Medical Center (Medical Center), a component unit of Henry County, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated September 19, 2013.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from 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.*

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 Medical Center'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 Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 19, 2013