

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

Dayton, Tennessee

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2013 and 2012

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

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

Our discussion and analysis of Rhea Medical Center's (the Medical Center's) financial performance provides an overview of the Medical Center's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the Medical Center's financial statements, which begin on page 4.

Financial Highlights

- The Medical Center's net position increased in each of the past two years with a \$531,482 or 3% increase in 2013 and a \$665,156 or 3% increase in 2012. The Medical Center reported operating income in both 2013 and 2012. Operating revenues increased 3% from 2012, while operating expenses decreased 4% in 2013.

Using This Annual Report

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

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

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

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

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MANAGEMENT’S DISCUSSION AND ANALYSIS

The Statement of Cash Flows

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

The Medical Center’s Net Position

The Medical Center’s net position is the difference between its assets and liabilities reported in the Statements of Net Position on pages 4 and 5. The Medical Center’s net position increased in each of the past two years with a \$531,482 or 3% increase in 2013 and a \$665,156 or 3% increase in 2012. See Exhibit One for an illustration.

Exhibit One: Assets, Liabilities, and Net Position

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|---------------------|
| Assets: | | | |
| Current assets | \$18,274,781 | \$20,081,084 | \$16,843,706 |
| Capital assets, net, | 26,075,247 | 26,683,276 | 27,681,120 |
| Non-current cash and investments | 5,947,655 | 2,168,211 | 3,178,877 |
| Other assets | <u>137,348</u> | <u>463,411</u> | <u>479,271</u> |
| Total assets | <u>\$50,435,031</u> | <u>\$49,395,982</u> | <u>\$48,182,974</u> |
| Liabilities | | | |
| Current liabilities | \$ 8,283,368 | \$ 6,863,590 | \$ 5,529,866 |
| Long-term debt outstanding | <u>20,422,000</u> | <u>21,203,000</u> | <u>21,988,872</u> |
| Total liabilities | <u>\$28,705,368</u> | <u>\$28,066,590</u> | <u>\$27,518,738</u> |
| Net position: | | | |
| Invested in capital assets, net of related debt | \$ 4,872,247 | \$ 4,692,493 | \$ 4,715,587 |
| Unrestricted | 16,857,416 | 16,636,899 | 15,705,304 |
| Unrestricted-Board Designated | <u>-</u> | <u>-</u> | <u>243,345</u> |
| Total Net Position | <u>\$21,729,663</u> | <u>\$21,329,392</u> | <u>\$20,664,236</u> |

Assets increased by \$1,039,049 or 2% during 2013. A significant component of the change in the Medical Center’s assets is the increase of \$2,253,384 and \$3,779,444 in current and non-current investments respectively. (See Note 2 to the financial statements for an explanation of the Medical Center’s deposits and investments). The increase in investments was the result of investing excess cash

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MANAGEMENT'S DISCUSSION AND ANALYSIS

and resulted in a decrease in cash of \$3,986,900 as detailed in the Statement of Cash Flows. The increase in investments was also offset by a \$608,029 decrease in capital assets. (See Note 1 to the financial statements for an explanation of the Medical Center's capitalization policies and Note 7 for a detail of capital assets). In other assets, bond issue cost of \$131,211 was written off as a prior period adjustment to comply with the requirements of GASB Statement Number 65 (see Note 16 to the financial statements for an explanation of GASB Statement Number 65. Current liabilities increased \$1,419,778 due to a \$1,696,777 increase in estimated third-party settlements (See Note 3 to the financial statements for a summary of the basis of reimbursement with major third-party payors). The long-term debt portion of liabilities decreased by \$781,000 due to the maturing of debt (See Note 9 to the financial statements for a detail of long-term debt).

Operating Results and Changes in the Medical Center's Net Position

The Medical Center's net position increased by \$531,482 or 3% in 2013 and \$665,156 or 3% in 2012, as shown in Exhibit 2. The increase in 2013 is primarily due to the increases discussed above. Operating income decreased in 2013 by \$59,471 or 8% and decreased in 2012 by \$2,079,819 or 75%, respectively.

Exhibit 2: Operating Results and Changes in Net Assets

| | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---------------------------------|----------------------------|----------------------------|----------------------------|
| OPERATING REVENUES: | | | |
| Net patient service revenue | \$18,728,589 | \$17,919,647 | \$20,103,590 |
| Other revenue | <u>470,697</u> | <u>710,223</u> | <u>737,941</u> |
| TOTAL OPERATING REVENUES | <u>\$19,199,286</u> | <u>\$18,629,870</u> | <u>\$20,841,531</u> |
| OPERATING EXPENSES: | | | |
| Salaries and benefits | 9,522,325 | 9,227,163 | 9,331,931 |
| Medical supplies and drugs | 1,750,963 | 1,756,323 | 1,581,788 |
| Other supplies | 380,171 | 376,727 | 389,413 |
| Insurance | 290,341 | 248,077 | 204,860 |
| Depreciation | 1,254,116 | 1,693,147 | 1,821,871 |
| Other expenses | <u>5,325,580</u> | <u>4,623,172</u> | <u>4,726,588</u> |
| TOTAL OPERATING EXPENSES | <u>18,553,496</u> | <u>17,924,609</u> | <u>18,056,451</u> |
| OPERATING INCOME | <u>645,790</u> | <u>705,261</u> | <u>2,785,080</u> |

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

NONOPERATING REVENUES (EXPENSES)

| | | | |
|-------------------------|---------------|---------------|---------------|
| Interest income | \$33,920 | 72,107 | 14,536 |
| Interest expense | (223,325) | (180,312) | (209,224) |
| Noncapital contribution | 25,097 | 32,100 | 65,050 |
| Noncapital grants | <u>50,000</u> | <u>20,000</u> | <u>15,100</u> |

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

| | | |
|------------------|-----------------|------------------|
| <u>(114,308)</u> | <u>(56,105)</u> | <u>(114,538)</u> |
|------------------|-----------------|------------------|

EXCESS OF REVENUES OVER EXPENSES

| | | | |
|----------------|----------|---------------|----------------|
| Capital Grants | <u>-</u> | <u>16,000</u> | <u>363,000</u> |
|----------------|----------|---------------|----------------|

INCREASE IN NET POSITION

| | | | |
|-----------------------------------|------------------|------------|------------|
| Net position at beginning of year | 21,329,392 | 20,664,236 | 17,630,694 |
| Prior period adjustment | <u>(131,211)</u> | <u>-</u> | <u>-</u> |

| | | | |
|-----------------------------|---------------------|---------------------|---------------------|
| Net position at end of year | <u>\$21,729,663</u> | <u>\$21,329,392</u> | <u>\$20,664,236</u> |
|-----------------------------|---------------------|---------------------|---------------------|

Operating Income

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

The primary components of the operating income in 2013 are:

- Net patient service revenue increased by \$808,942 or 5%. Patient revenue before deductions increased by \$1,548,292 or 4%. The increase was due to a 50, or 5%, increase in admissions and a 758, or 3%, increase in emergency department visits. The increases in patient revenue were offset by contractual adjustments and bad debts (See Note 3 to the financial statements for a summary of the basis of reimbursements with major third-party payors). Contractual adjustments increased \$727,673 or 3% as a result of the higher revenue.
- Other revenue decreased by \$239,526 or 34%. An insurance premium rebate of \$68,867 was included in other revenue in 2012. No rebate was received in 2013. Rental revenue decreased \$115,224 or 23% due to Life Care moving out of the nursing home to their new building.

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

- Salaries and related benefits increased \$325,162 or 4%. The addition of the Spring City Clinic and in-house speech therapy increased salaries by \$236,932. The remainder of the increase was due to annual staff raises.
- Depreciation and amortization expense decreased \$439,031 due to several capital items that were fully depreciated in 2012. (See Note 1 to financial statements for an explanation of the Medical Center's capitalization policies and Note 6 for a detail of capital assets).
- Other expenses increased by \$702,408 or 15%. In 2013, the Medical Center started a hospitalist program staffed by TeamHealth. The Medical Center pays TeamHealth the program expenses net of hospitalist patient collections. In 2013, the Medical Center paid \$616,778 for the program.

Nonoperating Revenues

Interest income decreased \$38,187 due to the low interest rate environment. (See Note 2 to the financial statements for an explanation of the Medical Center's deposits and investments).

The Medical Center's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2013, the Medical Center had \$26,075,247 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. During fiscal year 2013, the Medical Center purchased equipment and other depreciable assets of \$646,087 (reduced by \$1,254,116 in related depreciation expense on the balance sheet).

Debt. In 2006, the Medical Center obtained funding of \$24,100,000 to construct a replacement facility as detailed in Note 9 to the financial statements. Interest expense increased \$43,013 due to increases in the interest rate. (See Note 9 to the financial statements for a detail of long-term debt).

Other Economic Factors

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The roll-out of the Affordable Care Act which started enrollment in the health exchanges in October 2013 could have an unknown impact on the Medical Center. If more people have insurance coverage, it could decrease the amount of bad debt from self-pay patients. If, however, people currently with insurance move from lower deductible plans to plans with a higher deductible, it could increase bad debt.

Contacting the Medical Center's Financial Management

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

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

Ronald L. Raper, Board Chairman
Barbara Mauldin
Grover Parks
Harold Fisher
Bill Hollin
Dr. Niladri Panda
Frank Snyder

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

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



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of net position of Rhea Medical Center (a component unit of Rhea County, Tennessee) (the Medical Center), as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements.

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 of 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 auditors' 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 financial position of Rhea Medical Center (a component unit of Rhea County, Tennessee), as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 16 to the financial statements, in 2012, the Medical Center adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages ii through vii be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on Rhea Medical Center's (a component unit of Rhea County, Tennessee) basic financial statements. The accompanying schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. It has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2013, on our consideration of Rhea Medical Center's (a component unit of Rhea County, Tennessee) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rhea Medical Center's (a component unit of Rhea County, Tennessee) internal control over financial reporting and compliance.

Johnson, Wiley & Meacham, P.C.

Chattanooga, Tennessee
November 20, 2013

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012

ASSETS

| | 2013 | 2012 |
|--|---------------|---------------|
| CURRENT ASSETS: | | |
| Cash | \$ 6,991,290 | \$ 10,978,190 |
| Patient accounts receivable, net of estimated uncollectibles of \$1,820,000 in 2013 and \$1,940,000 in 2012 | 2,536,728 | 2,516,703 |
| Investments | 7,893,667 | 5,640,283 |
| Inventories | 441,187 | 537,449 |
| Prepaid expenses | 91,968 | 71,883 |
| Other current assets | 319,941 | 336,576 |
| Total current assets | 18,274,781 | 20,081,084 |
| NONCURRENT CASH AND INVESTMENTS: | | |
| Investments | 5,947,655 | 2,168,211 |
| CAPITAL ASSETS: | | |
| Land | 2,362,513 | 2,362,513 |
| Depreciable assets, net of accumulated depreciation | 23,712,734 | 23,822,828 |
| Construction in progress | - | 497,935 |
| | 26,075,247 | 26,683,276 |
| OTHER ASSETS: | | |
| Bond issuance costs | - | 131,211 |
| Other assets | 137,348 | 332,200 |
| | 137,348 | 463,411 |
| Total assets | \$ 50,435,031 | \$ 49,395,982 |

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

LIABILITIES AND NET POSITION

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | \$ 781,000 | \$ 787,783 |
| Accounts payable | 414,226 | 780,616 |
| Accrued payroll | 457,440 | 407,638 |
| Other accrued expenses | 387,149 | 340,777 |
| Estimated third-party payor settlements | <u>6,243,553</u> | <u>4,546,776</u> |
| Total current liabilities | <u>8,283,368</u> | <u>6,863,590</u> |
| LONG-TERM DEBT , net of current maturities | <u>20,422,000</u> | <u>21,203,000</u> |
| Total Liabilities | <u>28,705,368</u> | <u>28,066,590</u> |
| NET POSITION: | | |
| Investments in capital assets, net of related debt | 4,872,247 | 4,692,493 |
| Unrestricted | <u>16,857,416</u> | <u>16,636,899</u> |
| Total net position | <u>21,729,663</u> | <u>21,329,392</u> |
| Total liabilities and net position | <u>\$ 50,435,031</u> | <u>\$ 49,395,982</u> |

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

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| OPERATING REVENUES: | | |
| Net patient service revenue | \$ 18,728,589 | \$ 17,919,647 |
| Other revenue | 470,697 | 710,223 |
| | <u>19,199,286</u> | <u>18,629,870</u> |
| OPERATING EXPENSES: | | |
| Salaries and benefits | 9,552,325 | 9,227,163 |
| Medical supplies and drugs | 1,750,963 | 1,756,323 |
| Other supplies | 380,171 | 376,727 |
| Insurance | 290,341 | 248,077 |
| Depreciation and amortization | 1,254,116 | 1,693,147 |
| Other expenses | 5,325,580 | 4,623,172 |
| | <u>18,553,496</u> | <u>17,924,609</u> |
| OPERATING INCOME | <u>645,790</u> | <u>705,261</u> |
| NONOPERATING REVENUE (EXPENSES): | | |
| Investment income | 33,920 | 72,107 |
| Interest expense | (223,325) | (180,312) |
| Noncapital contribution | 25,097 | 32,100 |
| Noncapital grants | 50,000 | 20,000 |
| | <u>(114,308)</u> | <u>(56,105)</u> |
| INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS | 531,482 | 649,156 |
| Capital grants | <u>-</u> | <u>16,000</u> |
| INCREASE IN NET POSITION | <u>531,482</u> | <u>665,156</u> |
| NET POSITION: | | |
| Beginning, as previously reported | 21,329,392 | 20,664,236 |
| Prior period adjustment | <u>(131,211)</u> | <u>-</u> |
| Beginning, as restated | <u>21,198,181</u> | <u>20,664,236</u> |
| Ending | <u>\$ 21,729,663</u> | <u>\$ 21,329,392</u> |

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

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|--|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from patients and third-party payors | \$ 16,159,566 | \$ 15,597,615 |
| Cash payments to suppliers for goods and services | (5,565,772) | (4,713,915) |
| Cash payments to employees for services | (7,470,385) | (7,165,774) |
| Other revenue | 470,697 | 710,223 |
| Net cash provided by operations | 3,594,106 | 4,428,149 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Noncapital grants and contributions | 75,097 | 52,100 |
| Net cash provided by noncapital financing activities | 75,097 | 52,100 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Capital grants | - | 16,000 |
| Interest paid on debt | (223,325) | (180,312) |
| Purchase of property and equipment | (646,087) | (689,055) |
| Payments on long-term debt | (787,783) | (974,750) |
| Net cash used by capital and related financing activities | (1,657,195) | (1,828,117) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest received | 57,305 | 84,560 |
| Purchases of investments | (11,696,496) | (4,642,070) |
| Sales and maturities of investments | 5,640,283 | 6,428,254 |
| Net cash provided (used) by investing activities | (5,998,908) | 1,870,744 |
| NET INCREASE (DECREASE) IN CASH | (3,986,900) | 4,522,876 |
| Cash, beginning | 10,978,190 | 6,455,314 |
| Cash, ending | \$ 6,991,290 | \$ 10,978,190 |

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

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | \$ 645,790 | \$ 705,261 |
| Adjustments to reconcile operating income to net cash provided by operating activities - | | |
| Depreciation and amortization | 1,254,116 | 1,693,147 |
| Provision for bad debts | 4,245,775 | 4,234,098 |
| Net (increase) decrease in operating assets - | | |
| Accounts receivable | (4,265,800) | (3,825,194) |
| Inventories | 96,262 | 52,386 |
| Prepaid expenses | (20,085) | (22,007) |
| Other assets | 211,487 | 67,856 |
| Net increase (decrease) in operating liabilities - | | |
| Accounts payable | (366,390) | (13,639) |
| Accrued payroll | 49,802 | 40,978 |
| Other accrued expenses | 46,372 | (7,899) |
| Estimated third-party payor settlements | <u>1,696,777</u> | <u>1,503,162</u> |
| Net cash provided by operations | <u>\$ 3,594,106</u> | <u>\$ 4,428,149</u> |

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

**RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization –

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

Enterprise fund accounting –

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

Use of estimates –

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

Net patient service revenue –

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenues increased by approximately \$76,000 and \$89,000 in 2013 and 2012, respectively, due to prior year retroactive adjustments in excess amounts of amounts previously estimated.

Revenue from the Medicare and Medicaid programs accounted for approximately 26 and 12 percent, respectively, for the year ended June 30, 2013, and 31 and 6 percent, respectively, for the year ended June 30, 2012, of the Medical Center's net patient service revenue. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Charity care –

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

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(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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

Operating revenues and expenses –

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

Income taxes –

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

Inventories –

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

Accounts receivable –

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

Cash and cash equivalents –

The Hospital considers currency on hand and demand deposits with financial institutions to be cash. The Hospital considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents exclude amounts held by trustees under bond indenture agreements and amounts restricted by donors. There were no cash equivalents at June 30, 2013.

Noncurrent cash and investments –

Noncurrent investments include the portion of the Medical Center's investments in certificates of deposit, annuities, and other investment vehicles that are not expected to mature within the coming year. There was no noncurrent cash in 2013 and 2012.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Capital assets –

Assets with a useful life of greater than one year and a cost of greater than \$5,000 are recorded as capital assets and are stated at cost. Depreciation is calculated over the estimated useful lives using the straight-line method. Expenditures for maintenance, repairs, renewals and betterments that do not significantly extend the useful lives of the assets are expensed as incurred. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the books, and any resulting gain or loss is reflected in income for the period.

A summary of useful lives follows –

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

Cost of borrowing –

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. No interest was capitalized during 2013 or 2012.

Bond issuance costs –

For the year ended June 30, 2012, the costs incurred in connection with the issuance of the bonds are being amortized using the straight-line method over the term of the bonds.

Bond issuance costs at June 30, 2012 are as follows –

| | |
|-------------------------------|--------------------|
| | <u>2012</u> |
| Bond issuance costs | \$ 168,700 |
| Less accumulated amortization | <u>37,489</u> |
| | <u>\$ 131,211</u> |

For the year ended June 30, 2013, the Medical Center adopted the provisions of GASB Statement Number 65 *Items Previously Reported as Assets and Liabilities*. Under this guidance, debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. As a result, bond issuance costs and related accumulated amortization were written off to net position in the current year.

Risk management –

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

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

Net position –

Net position of the Medical Center is classified into four components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center. *Restricted nonexpendable net position* equals the principal portion of permanent endowments. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets or restricted*. There were no restricted assets at June 30, 2013 or 2012.

| | 2013 | 2012 |
|---|---------------|---------------|
| Property and equipment, net | \$ 26,075,247 | \$ 26,683,276 |
| Less – | | |
| Current portion of long-term debt related to the acquisition of property and equipment | (781,000) | (787,783) |
| Long-term debt, excluding current portion relating to the acquisition of property and equipment | (20,422,000) | (21,203,000) |
| | \$ 4,872,247 | \$ 4,692,493 |

Deferred Outflows/Inflows of Resources –

During the current year, the Medical Center adopted the provisions of GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Under this Statement, GASB has defined deferred outflows of resources and deferred inflows of resources as follows:

Deferred outflows of resources - a consumption of net assets by the government that is applicable to a future reporting period.

Deferred inflows of resources - an acquisition of net assets by the government that is applicable to a future reporting period.

As of June 30, 2013, the Medical Center did not have any deferred outflows or inflows of resources. This statement had no significant impact on the Medical Center.

(2) DEPOSITS AND INVESTMENTS:

Deposits –

State statutes authorize the Medical Center to invest in obligations of the U.S. Treasury, bank certificates of deposit, state approved repurchase agreements and pooled investment funds, and state or local bonds rated A or higher by a nationally recognized rating service.

RHEA MEDICAL CENTER
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JUNE 30, 2013 AND 2012

(2) DEPOSITS AND INVESTMENTS (Continued):

Custodial credit risk – deposits –

Custodial risk is the risk that in the event of a bank failure, the Medical Center’s deposits may not be returned to it. The Medical Center’s bank balance of deposits was \$7,169,925 and \$11,060,619 at June 30, 2013 and 2012, respectively. The bank balances held in cash accounts and a repurchase agreement are either insured by the Federal Deposit Insurance Corporation or collateralized by the Tennessee Bank Collateral Pool and are not subject to custodial risk.

Interest rate risk –

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

Custodial risk – investments –

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

| | <u>2013</u> | <u>2012</u> |
|---------------------|---------------|--------------|
| Investments: | | |
| Insured by the FDIC | \$ 13,841,322 | \$ 7,808,494 |

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

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Carrying amount: | | |
| Deposits | \$ 6,990,290 | \$ 10,977,190 |
| Certificates of deposit | 13,841,322 | 7,808,494 |
| Cash on hand | <u>1,000</u> | <u>1,000</u> |
| | <u>\$ 20,832,612</u> | <u>\$ 18,786,684</u> |
| Included in the following balance sheet captions: | | |
| Cash | \$ 6,991,290 | \$ 10,978,190 |
| Current investments | 7,893,667 | 5,640,283 |
| Noncurrent investments | <u>5,947,655</u> | <u>2,168,211</u> |
| | <u>\$ 20,832,612</u> | <u>\$ 18,786,684</u> |

The certificates of deposit are with various U.S. financial institutions and mature with various terms through June 2015.

**RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
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(3) NET PATIENT SERVICE REVENUE:

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

Medicare –

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

TennCare –

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

Others –

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

The following table summarizes net patient service revenue –

| | |
|--|----------------------|
| Gross revenues from patients | \$ 45,243,503 |
| Less: Allowances for contractual adjustments | 22,269,139 |
| Provision for bad debts | <u>4,245,775</u> |
| Net patient service revenue | <u>\$ 18,728,589</u> |

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

Medicare provides electronic health records (EHR) incentive payments which are recorded as net patient service revenue because the payments are directly linked to the payments they receive for providing care to Medicare beneficiaries. During 2013, the Medical Center recognized \$109,596 in EHR incentive payments.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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(5) INVENTORIES:

Inventories on June 30, 2013 and 2012, consist of the following –

| | <u>2013</u> | <u>2012</u> |
|------------------|-------------------|-------------------|
| Pharmacy | \$ 154,192 | \$ 164,764 |
| General supplies | 80,722 | 79,038 |
| Dietary | 14,762 | 13,404 |
| Laboratory | 33,258 | 27,988 |
| X-ray | 10,467 | 14,827 |
| Surgery | <u>147,786</u> | <u>237,428</u> |
| | <u>\$ 441,187</u> | <u>\$ 537,449</u> |

(6) CASH AND INVESTMENTS INTERNALLY DESIGNATED FOR CAPITAL ACQUISITIONS:

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

(7) CAPITAL ASSETS:

A summary of changes in capital assets follows –

| | <u>2012</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>2013</u> |
|------------------------------------|----------------------|---------------------|--------------------|------------------|----------------------|
| Land | \$ 2,362,513 | \$ - | \$ - | \$ - | \$ 2,362,513 |
| Land improvements | 134,095 | - | - | - | 134,095 |
| Buildings and improvements | 27,565,700 | 57,289 | - | 490,823 | 28,113,812 |
| Major moveable equipment | 12,105,281 | 588,798 | (78,021) | 7,112 | 12,623,170 |
| Fixed equipment | 941,525 | - | - | - | 941,525 |
| Construction in progress | <u>497,935</u> | - | - | <u>(497,935)</u> | - |
| Totals at historical cost | <u>43,607,049</u> | <u>646,087</u> | <u>(78,021)</u> | <u>-</u> | <u>44,175,115</u> |
| Less accumulated depreciation for: | | | | | |
| Land improvements | 65,891 | 4,944 | - | - | 70,835 |
| Buildings and improvements | 6,790,977 | 669,194 | - | - | 7,460,171 |
| Major moveable equipment | 9,261,723 | 578,494 | (78,021) | - | 9,762,196 |
| Fixed equipment | <u>805,182</u> | <u>1,484</u> | <u>-</u> | <u>-</u> | <u>806,666</u> |
| | <u>16,923,773</u> | <u>1,254,116</u> | <u>(78,021)</u> | <u>-</u> | <u>18,099,868</u> |
| Property and equipment, net | <u>\$ 26,683,276</u> | <u>\$ (608,029)</u> | <u>\$ -</u> | <u>-</u> | <u>\$ 26,075,247</u> |

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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(7) CAPITAL ASSETS (Continued):

| | <u>2011</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | <u>2012</u> |
|------------------------------------|----------------------|---------------------|--------------------|------------------|----------------------|
| Land | \$ 2,362,513 | \$ - | \$ - | \$ - | \$ 2,362,513 |
| Land improvements | 65,951 | 68,144 | - | - | 134,095 |
| Buildings and improvements | 27,517,086 | 48,614 | - | - | 27,565,700 |
| Major moveable equipment | 12,030,020 | 75,261 | - | - | 12,105,281 |
| Fixed equipment | 941,525 | - | - | - | 941,525 |
| Construction in progress | 900 | 497,035 | - | - | 497,935 |
| Totals at historical cost | <u>42,917,995</u> | <u>689,054</u> | <u>-</u> | <u>-</u> | <u>43,607,049</u> |
| Less accumulated depreciation for: | | | | | |
| Land improvements | 61,798 | 4,093 | - | - | 65,891 |
| Buildings and improvements | 6,089,160 | 701,817 | - | - | 6,790,977 |
| Major moveable equipment | 8,282,539 | 979,184 | - | - | 9,261,723 |
| Fixed equipment | 803,378 | 1,804 | - | - | 805,182 |
| | <u>15,236,875</u> | <u>1,686,898</u> | <u>-</u> | <u>-</u> | <u>16,923,773</u> |
| Property and equipment, net | <u>\$ 27,681,120</u> | <u>\$ (997,844)</u> | <u>\$ -</u> | <u>-</u> | <u>\$ 26,683,276</u> |

The Medical Center capital assets above include idle property at June 30, 2013 and 2012 as follows: buildings and improvements of \$740,000, fixed equipment of \$126,000, and major moveable equipment of \$305,000. Idle property is not being depreciated. Management estimates the value of the idle property is not impaired below recorded value.

(8) OTHER ASSETS:

The Medical Center pays various fees and expenses to and on behalf of physicians who are recruited to practice at the Medical Center. These expenses are recorded as assets and are amortized over the terms of the physician's contracts. At June 30, 2013 and 2012, respectively, the assets totaled \$140,019 and \$570,384, net of accumulated amortization.

Other assets also include various lease deposits and prepayments totaling \$317,270 and \$98,392 at June 30, 2013 and 2012, respectively.

(9) LONG-TERM DEBT:

| | <u>2013</u> | <u>2012</u> |
|---|----------------------|----------------------|
| Loan agreement | \$ 21,203,000 | \$ 21,961,000 |
| Capital lease obligation | - | 29,783 |
| Total long-term debt | 21,203,000 | 21,990,783 |
| Less current maturities of long-term debt | <u>781,000</u> | <u>787,783</u> |
| Long-term debt, net of current maturities | <u>\$ 20,422,000</u> | <u>\$ 21,203,000</u> |

**RHEA MEDICAL CENTER
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(9) LONG-TERM DEBT (Continued):

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

Principal payments will be made annually as they become due. Interest payments are due monthly. Variable interest is calculated daily as set forth in the loan agreement (0.49% at June 30, 2013).

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

The capital lease obligation requires monthly installments of \$14,970, including interest, until August 2012. The obligation is secured by an MRI system with a cost of \$808,468 and no carrying value at June 30, 2013.

Scheduled payments on long-term debt are as follows –

| | | <u>Long-Term Debt</u> | |
|----------|-----------|-----------------------|---------------------|
| | | <u>Principal</u> | <u>Interest *</u> |
| June 30, | 2014 | \$ 781,000 | \$ 101,981 |
| | 2015 | 805,000 | 98,096 |
| | 2016 | 830,000 | 94,090 |
| | 2017 | 856,000 | 89,959 |
| | 2018 | 882,000 | 85,701 |
| | 2019-2023 | 4,840,000 | 359,856 |
| | 2024-2028 | 5,640,000 | 231,721 |
| | 2029-2033 | <u>6,569,000</u> | <u>82,430</u> |
| | | <u>\$ 21,203,000</u> | <u>\$ 1,143,834</u> |

*Future interest payments are based on the loan amounts outstanding and interest rates in effect at June 30, 2013, and do not necessarily represent the payments that will be required.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(9) LONG-TERM DEBT (Continued):

Activity for long-term debt as of June 30, 2013 and 2012 follows –

| | <u>2012</u> | <u>Additions</u> | <u>Retirements</u> | <u>2013</u> | <u>Amounts Due Within One Year</u> |
|---------------|----------------------|------------------|--------------------|----------------------|--|
| Bonds payable | \$ 21,961,000 | \$ - | \$ 758,000 | \$ 21,203,000 | \$ 781,000 |
| Capital lease | <u>29,783</u> | <u>-</u> | <u>29,783</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 21,990,783</u> | <u>\$ -</u> | <u>\$ 787,783</u> | <u>\$ 21,203,000</u> | <u>\$ 781,000</u> |

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

(10) ACCRUED LEAVE:

Medical Center employees are paid for vacation and absence due to sickness by a prescribed formula based on length of service. The costs of these compensated absences are accrued as earned. The accumulated vacation and sick leave benefits accrued totaled \$294,296 and \$267,745 for 2013 and 2012, respectively, and are included with accrued payroll in current liabilities.

(11) CHARITY CARE:

The Medical Center estimates that the cost of providing care under the charity care policy was approximately \$297,000 and \$242,000 during the years ended June 30, 2013 and 2012, respectively. This is the cost of supplies and services provided to patients for which payment was foregone under the charity care policy, based on current cost to charge ratio for the Medical Center.

(12) PENSION PLANS:

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

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

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(12) PENSION PLANS (Continued):

Effective July 1, 2012, the Medical Center established a deferred compensation 457(b) retirement plan for the benefit of its employees. Any employee who has been continuously employed by the Medical Center for three months before their entry date is eligible to participate. Employees elect to contribute a portion of their salary and the Medical Center makes contributions to the employees at their discretion. For any taxable year of the participant, employer contributions shall not exceed the lesser of 1) the applicable dollar amount, or 2) 100% of the participant's includible compensation for the taxable year.

Contributions to both plans by the Medical Center totaled \$500,560 and \$517,000 in 2013 and 2012, respectively. Contributions to both plans by Medical Center employees totaled \$311,159 and \$297,438 in 2013 and 2012, respectively.

(13) WORKING CAPITAL:

Net working capital at June 30, 2013 and 2012, was \$9,991,413 and \$13,217,494, respectively.

(14) COMMITMENTS AND CONTINGENCIES:

Operating leases –

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

The Medical Center leases equipment under operating lease agreements. Rental expenses included in operations amounted to \$214,822 and \$168,407 in 2013 and 2012, respectively.

Future minimum lease payments under operating leases are as follows –

| | | | |
|---------------------|---------------|-----------|----------------|
| For the year ending | June 30, 2014 | \$ | 52,008 |
| | 2015 | | 52,008 |
| | 2016 | | 52,008 |
| | 2017 | | 47,674 |
| | | | 47,674 |
| | | <u>\$</u> | <u>203,698</u> |

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
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(14) COMMITMENTS AND CONTINGENCIES (Continued):

Operating leases (continued) –

The Medical Center leases space to physicians and others under leases with various terms. Total rental income for all operating leases was \$390,072 and \$505,296 for 2013 and 2012, respectively.

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

| | |
|--------------------------|-------------------|
| Cost | \$ 3,985,190 |
| Accumulated depreciation | <u>3,336,851</u> |
| | <u>\$ 648,339</u> |

Professional liability insurance –

The Medical Center is insured for professional liability under a claims-made policy with an independent insurance carrier. The policy covers all claims reported to the carrier during the coverage period. The primary level of coverage is \$1,000,000. Coverage for workers' compensation insurance is provided on a claims-made basis. The primary level of coverage is \$500,000 per claim, \$500,000 per employee, and \$500,000 in the aggregate. Premiums are determined by a variety of factors related to the Medical Center.

Management agreement –

A management agreement between the Medical Center and Quorum Health Resources, Inc. (Quorum) was signed on April 24, 2009, with effective dates of March 1, 2009 through February 28, 2016. The annual fee is \$266,917 for the contract year beginning March 1, 2009, increases annually by a factor equal to the lower of five percent or the percentage of increase in the Consumer Price Index, and is payable in equal monthly installments. Management services in addition to the fixed fee services are provided by Quorum as needed at varying rates. Total management fees paid to Quorum were \$304,059 and \$293,727 in 2013 and 2012, respectively.

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

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(14) COMMITMENTS AND CONTINGENCIES (Continued):

Management agreement (continued) –

Quorum also provides certain ‘key personnel’ to the Medical Center who are Quorum employees. The Medical Center reimburses Quorum for these costs and expenses (including, but not limited to salaries, taxes, fringe benefits, and business expenses) of providing these key personnel as invoiced by Quorum. These reimbursements are in addition to the fixed annual management fee described above. The amount paid to Quorum for administrative compensation and other services was \$411,919 and \$410,933 for 2013 and 2012, respectively.

Litigation –

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

(15) CONCENTRATIONS OF CREDIT RISK:

The Medical Center is located in Rhea County, Tennessee. The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2013 and 2012, follows –

| | 2013 | 2012 |
|-------------------|-------------|-------------|
| Medicare | 21% | 29% |
| Medicaid/TennCare | 4 | 7 |
| Blue Cross | 5 | 11 |
| Commercial | 10 | 22 |
| Private pay | 60 | 31 |
| | <u>100%</u> | <u>100%</u> |

(16) PRIOR PERIOD ADJUSTMENT:

The Medical Center has adopted the provisions of GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows and inflows. Under this guidance, debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred.

Prior to the issuance of this Statement, bond premiums and discounts, as well as issuance costs, were deferred and amortized over the life of the bonds. Bonds payable were reported net of the applicable bond premium or discount. Bond issuance costs were reported as deferred charges and amortized over the term of the related debt.

**RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

(16) PRIOR PERIOD ADJUSTMENT (Continued):

The Medical Center has restated its beginning net position for the year ended June 30, 2013 to comply with the provisions of GASB Statement No. 65. The effect on beginning fund balance is a decrease of \$131,211. Beginning bond issue costs for the current year have been decreased by the same amount.

(17) SUBSEQUENT EVENTS:

The Medical Center noted no transactions that would provide evidence about material conditions that did not exist at the balance sheet date but arose subsequently, through the date these financial statements were available to be issued, November 20, 2013.

SUPPLEMENTARY INFORMATION

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 1 - NET PATIENT SERVICE REVENUE
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | 2013 | 2012 |
|--------------------------------------|-------------------|-------------------|
| DAILY PATIENT SERVICES: | | |
| Intensive care unit | \$ 175,532 | \$ 24,266 |
| Routine care | 2,515,490 | 2,606,919 |
| | 2,691,022 | 2,631,185 |
| OTHER NURSING SERVICES: | | |
| Central supply | 1,697,208 | 1,451,558 |
| Emergency room | 10,293,487 | 9,758,820 |
| Operating and recovery rooms | 2,333,568 | 1,937,695 |
| | 14,324,263 | 13,148,073 |
| OTHER PROFESSIONAL SERVICES: | | |
| Anesthesiology | 607,300 | 548,803 |
| Bone densitometry | 126,450 | 107,870 |
| Cardiac rehabilitation | 131,195 | 115,733 |
| CT scans | 9,445,741 | 9,486,565 |
| Electrocardiology | 340,933 | 305,425 |
| Industrial nursing | 141,777 | 138,974 |
| Intravenous therapy | 438,328 | 436,171 |
| Laboratory | 5,759,628 | 5,492,717 |
| MRI | 59,090 | 51,531 |
| Nuclear medicine | 3,028,251 | 3,124,154 |
| Pharmacy | 1,890,055 | 2,042,266 |
| Physical therapy | 2,002,219 | 2,013,308 |
| Radiology | 2,656,141 | 2,693,474 |
| Respiratory therapy | 937,386 | 916,600 |
| Speech therapy | 349,997 | 96,792 |
| Vascular studies | 313,727 | 345,570 |
| | 28,228,218 | 27,915,953 |
| GROSS PATIENT SERVICE REVENUE | 45,243,503 | 43,695,211 |

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| CONTRACTUAL ADJUSTMENTS AND ALLOWANCES: | | |
| Bad debts | 4,245,775 | 4,234,098 |
| Blue Cross | 2,828,858 | 2,827,558 |
| Employee discounts | 31,176 | 33,557 |
| Medicare and Medicaid | 16,663,776 | 15,938,245 |
| Other policy discounts | <u>2,745,329</u> | <u>2,742,106</u> |
| | <u>26,514,914</u> | <u>25,775,564</u> |
| | <u>\$ 18,728,589</u> | <u>\$ 17,919,647</u> |

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 2 - OTHER OPERATING REVENUE
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|-------------------|-------------------|-------------------|
| Cafeteria revenue | \$ 58,181 | \$ 59,892 |
| Patient histories | 930 | 511 |
| Rental revenue | 390,072 | 505,296 |
| Vending revenue | 1,577 | 1,435 |
| Miscellaneous | <u>19,937</u> | <u>143,089</u> |
| | <u>\$ 470,697</u> | <u>\$ 710,223</u> |

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 3 - SALARIES AND BENEFITS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| NURSING SERVICES: | | |
| Central supply | \$ 34,349 | \$ 36,249 |
| Emergency room | 1,244,966 | 1,251,229 |
| Intensive care unit | 141,219 | 121,935 |
| Nursing | 1,276,486 | 1,298,431 |
| Operating and recovery rooms | 452,110 | 452,296 |
| | <u>3,149,130</u> | <u>3,160,140</u> |
| OTHER PROFESSIONAL SERVICES: | | |
| Cardiac rehab | 67,301 | 61,994 |
| Clinic | 182,819 | 25,070 |
| CT scans | 60,265 | 60,861 |
| Industrial nursing | 83,581 | 83,880 |
| Laboratory | 531,875 | 518,917 |
| MRI | 62,657 | 57,474 |
| Nuclear medicine | 275,621 | 281,053 |
| Pharmacy | 227,296 | 202,293 |
| Radiology | 553,900 | 554,756 |
| Respiratory therapy | 255,591 | 273,128 |
| Speech therapy | 79,183 | - |
| | <u>2,380,089</u> | <u>2,119,426</u> |
| GENERAL SERVICES: | | |
| Building operation and maintenance | 108,555 | 114,548 |
| Dietary | 211,765 | 206,776 |
| Housekeeping | 224,624 | 216,888 |
| Medical records | 217,653 | 211,918 |
| Materials management | 50,777 | 45,304 |
| | <u>813,374</u> | <u>795,434</u> |
| ADMINISTRATIVE AND FISCAL SERVICES: | | |
| Administrative and business offices | <u>3,209,732</u> | <u>3,152,163</u> |
| | <u>\$ 9,552,325</u> | <u>\$ 9,227,163</u> |

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 4 - MEDICAL SUPPLIES AND DRUGS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| NURSING SERVICES: | | |
| Central supply | \$ 493,370 | \$ 453,425 |
| Emergency room | 49,631 | 57,499 |
| Intensive care unit | 34 | - |
| Nursing | 30,546 | 34,936 |
| Operating and recovery rooms | 171,761 | 145,938 |
| | <u>745,342</u> | <u>691,798</u> |
| OTHER PROFESSIONAL SERVICES: | | |
| Cardiac rehab | 1,287 | 2,537 |
| Clinic | 5,520 | 3,620 |
| CT scans | 50,271 | 42,474 |
| Intravenous therapy | 26,649 | 24,567 |
| Laboratory | 385,911 | 454,881 |
| MRI | 6,242 | 7,503 |
| Nuclear medicine | 55,050 | 64,850 |
| Pharmacy | 406,922 | 413,202 |
| Physical therapy | 8,952 | 7,340 |
| Radiology | 14,662 | 11,279 |
| Respiratory therapy | 41,005 | 32,245 |
| Speech therapy | 3,150 | 27 |
| | <u>1,005,621</u> | <u>1,064,525</u> |
| | <u>\$ 1,750,963</u> | <u>\$ 1,756,323</u> |

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 5 - OTHER SUPPLIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| NURSING SERVICES: | | |
| Central supply | \$ 804 | \$ 425 |
| Emergency room | 8,453 | 9,350 |
| Nursing | 11,094 | 9,186 |
| Operating and recovery rooms | 3,286 | 3,114 |
| | <u>23,637</u> | <u>22,075</u> |
| OTHER PROFESSIONAL SERVICES: | | |
| Cardiac rehab | 842 | 1,132 |
| Clinic | 15,124 | 310 |
| CT scans | 6,424 | 5,885 |
| Industrial nursing | 13,813 | 9,556 |
| Laboratory | 3,143 | 2,375 |
| Nuclear medicine | 157 | 229 |
| Pharmacy | 1,885 | 3,125 |
| Physical therapy | 3,063 | 3,805 |
| Radiology | 5,659 | 5,923 |
| Respiratory therapy | 313 | 58 |
| | <u>50,423</u> | <u>32,398</u> |
| GENERAL SERVICES: | | |
| Building operation and maintenance | 27,909 | 34,609 |
| Dietary | 165,238 | 172,011 |
| Gift shop | 11,308 | 10,465 |
| Housekeeping | 50,618 | 50,019 |
| Laundry | 346 | - |
| Materials management | - | 667 |
| Medical records | 1,799 | 1,211 |
| Professional building | 116 | 1,549 |
| | <u>257,334</u> | <u>270,531</u> |
| ADMINISTRATIVE AND FISCAL SERVICES: | | |
| Administrative and business office | <u>48,777</u> | <u>51,723</u> |
| | <u>\$ 380,171</u> | <u>\$ 376,727</u> |

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 6 - OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| NURSING SERVICES: | | |
| Central supply | \$ 272 | \$ 517 |
| Emergency room | 24,032 | 80,223 |
| Intensive care unit | - | - |
| Nursing | 62,276 | 141,657 |
| Operating and recovery rooms | <u>177,939</u> | <u>212,074</u> |
| | <u>264,519</u> | <u>434,471</u> |
| OTHER PROFESSIONAL SERVICES: | | |
| Anesthesiology | 75,395 | 80,254 |
| Bone densitometry | 4,300 | 4,300 |
| Cardiac rehab | 7,214 | 6,749 |
| Clinic | 202,517 | 68,619 |
| CT scans | 87,750 | 90,958 |
| Industrial nursing | 32,348 | 37,336 |
| Laboratory | 255,144 | 191,975 |
| Nuclear medicine | 163,364 | 151,752 |
| Pharmacy | 38,478 | 37,596 |
| Physical therapy | 640,183 | 674,017 |
| Physicians | 616,778 | - |
| Radiology | 98,260 | 87,827 |
| Respiratory therapy | 16,174 | 11,541 |
| Speech therapy | <u>7,670</u> | <u>69,610</u> |
| | <u>2,245,575</u> | <u>1,512,534</u> |
| GENERAL SERVICES: | | |
| Building operation and maintenance | 755,988 | 648,405 |
| Dietary | 15,090 | 18,146 |
| Gift shop | 44 | 50 |
| Housekeeping | 21,312 | 11,541 |
| Laundry | 139,757 | 142,619 |
| Materials management | 305 | 73 |
| Medical records | 84,109 | 87,500 |
| Professional building | <u>33,809</u> | <u>25,842</u> |
| | <u>1,050,414</u> | <u>934,176</u> |
| ADMINISTRATIVE AND FISCAL SERVICES: | | |
| Administrative and business office | <u>1,765,072</u> | <u>1,741,991</u> |
| | <u>\$ 5,325,580</u> | <u>\$ 4,623,172</u> |



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

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

We have audited, 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, the financial statements of Rhea Medical Center (a component unit of Rhea County, Tennessee) (the Medical Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements and have issued our report thereon dated November 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audits 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 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Johnson, Niskey & Meucham, P.C.

Chattanooga, Tennessee
November 20, 2013

