

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

Parsons, Tennessee

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2014 and 2013

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying balance sheets of Decatur County General Hospital (the Hospital) (a component unit of Decatur County, Tennessee), as of June 30, 2014 and 2013, 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 Hospital'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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 the Hospital as of June 30, 2014 and 2013, 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 Regarding Going Concern

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 the financial statements as a whole. The schedules on pages 28 through 34 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. The schedules on pages 28 through 34 have been subjected to the auditing procedures applied in the audits of the basic financial statements for the years ended June 30, 2014 and 2013, 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 schedules on pages 28 through 34 are fairly stated in all material respects in relation to the 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 January 8, 2015, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Johnson, Nicky & Meucham, P.C.

Chattanooga, Tennessee
January 8, 2015

Management's Discussion and Analysis

Our discussion and analysis of Decatur County General Hospital's (DCGH) financial performance provides an overview of the Hospital's financial activities for the year ended June 30, 2014. However, please refer to the financial statements for an in-depth understanding of this analysis.

The fiscal year ended June 30, 2010 was a loss of \$310,547. The year ended June 30, 2011 was a loss of \$312,634. For the year ending, June 30, 2012, DCGH showed a net profit of \$1,473,705. Year 1 Meaningful Use for Electronic Medical Records made 2012 a profitable year. Management is determined to improve financial performance at DCGH. For the fiscal year ended June 30, 2013, DCGH lost \$338,619. The fiscal year ended June 30, 2014 was a loss of \$279,388.

DCGH is continuing to try and find new services and providers to introduce to this facility to improve access to area residents to better meet the healthcare needs of our community. The medical staff and the community have responded positively by utilizing our current services, all of which were made available to meet the needs of this community and enhance the healthcare provided by DCGH. Key financial highlights are as follows:

- Lab is CLIA and CAP Accredited.
- Joint Commission Accredited.
- Accredited Chest Pain Center.
- Completing Meaningful Use Phase 3 and working on Phase 4.
- The Nursing Department has implemented clinical hourly rounding and our HCAPHS scores are improving due to better customer service. With improved HCAPHS scores DCGH will earn pay for performance funds.
- Complete Care Program has reduced cost associated with a full-time hospitalist.
- Increased outpatient volume helped cover reductions in reimbursement.

COMPARATIVE DATA

	<u>June 30, 2014</u>	<u>Percent of Total</u>	<u>June 30, 2013</u>	<u>Percent of Total</u>	<u>June 30, 2012</u>	<u>Percent of Total</u>
Current and other assets	\$1,231,764	39.58%	\$1,278,714	37.79%	\$1,412,344	38.79%
Capital assets	<u>\$1,880,514</u>	<u>60.42%</u>	<u>\$2,105,148</u>	<u>62.21%</u>	<u>\$2,228,938</u>	<u>61.21%</u>
Total Assets	<u>\$3,112,278</u>	<u>100.00%</u>	<u>\$3,383,862</u>	<u>100.00%</u>	<u>\$3,641,282</u>	<u>100.00%</u>
 Total Deferred Outflows of Resources	 <u>\$14,815</u>	 <u>100.00%</u>	 <u>\$7,205</u>	 <u>100.00%</u>	 <u>\$7,205</u>	 <u>100.00%</u>
 Long-term liabilities	 \$820,971	 26.69%	 \$955,924	 31.24%	 \$873,001	 29.31%
Other liabilities	<u>\$2,254,609</u>	<u>73.31%</u>	<u>\$2,104,242</u>	<u>68.76%</u>	<u>\$2,105,966</u>	<u>70.69%</u>
Total Liabilities	<u>\$3,075,580</u>	<u>100.00%</u>	<u>\$3,060,166</u>	<u>100.00%</u>	<u>\$2,978,967</u>	<u>100.00%</u>

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Net position:			
Net investment capital assets	\$497,291	\$806,524	\$1,161,567
Unrestricted	<u>(\$445,778)</u>	<u>(\$475,623)</u>	<u>(\$492,047)</u>
Total Net Position	<u>\$51,513</u>	<u>\$330,901</u>	<u>\$669,520</u>
Operating Revenue:			
Net patient revenue	\$7,045,871	\$6,747,262	\$8,797,307
Other operating revenue	<u>\$909,575</u>	<u>\$1,410,149</u>	<u>\$2,268,076</u>
Total Operating Revenue	<u>\$7,955,446</u>	<u>\$8,157,411</u>	<u>\$11,065,383</u>
Operating Expenses:			
Salaries and benefits	\$4,834,768	\$4,469,734	\$5,148,394
Medical supplies and drugs	\$764,546	\$643,385	\$815,293
Other supplies	\$87,541	\$81,549	\$106,548
Insurance	\$113,459	\$103,981	\$99,282
Depreciation	\$484,296	\$457,085	\$452,801
Other expenses	<u>\$2,336,356</u>	<u>\$2,650,952</u>	<u>\$2,771,791</u>
Total Operating Expenses	<u>\$8,620,966</u>	<u>\$8,406,686</u>	<u>\$9,394,109</u>
Operating Income (Loss)	<u>(\$665,520)</u>	<u>(\$249,275)</u>	<u>\$1,671,274</u>
Nonoperating Revenues (Expenses):			
Interest income	\$409	\$101	\$60
Interest expense	(\$51,395)	(\$90,095)	(\$138,324)
Contribution from Decatur County	\$450,000	\$-	\$-
Gain (loss) on disposal of capital assets	\$1,100	\$650	(\$59,305)
Debt issuance costs	<u>(\$13,982)</u>	<u>\$-</u>	<u>\$-</u>
Total Nonoperating Revenues (Expenses)	<u>\$386,132</u>	<u>(\$89,344)</u>	<u>(\$197,569)</u>
Excess (Deficit) of Revenues Over Expenses And Increase (Decrease) in Net Position	<u>(\$279,388)</u>	<u>(\$338,619)</u>	<u>\$1,473,705</u>
Net Position (Deficit):			
Beginning	<u>\$330,901</u>	<u>\$669,520</u>	<u>(\$804,185)</u>
Ending	<u>\$51,513</u>	<u>\$330,901</u>	<u>\$669,520</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets net of accumulated depreciation decreased by \$224,634.

At June 30, 2014, the Hospital has long-term debt instruments totaling \$1,325,712. This is a decrease of \$208,209 from the previous year's debt of \$1,533,921. Of the \$1.3 million of debt, \$504,741 is considered current. The amount of \$650,000 is the total amount of debt currently held by Decatur County in bonds as well as a \$10,649 bond premium.

An amount of \$241,878 represents a note payable to a local bank secured by accounts receivable and certain long-term assets. The note has an interest rate of 7%. We also have capital lease obligations that total \$423,185.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES AND RATES

The breakdown for operating revenue consists of approximately 21% inpatient and 79% outpatient.

Medicare and TennCare revenues make up 75% of the Hospital's total patient revenue. Commercial payers total 20% and private-pay represents 5%.

The budgeting process for the upcoming year beginning July 1, 2014 requires significant participation by facility department managers.

For the fiscal year beginning July 1, 2014, the Hospital projects \$6,807,684 in total net patient revenues. Operating expenses are budgeted at \$7,605,817. Recognizing \$650,000 in other sources of income.

CONTACTING THE DECATUR COUNTY GENERAL HOSPITAL MANAGEMENT

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

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

- Will Quinn, Chairman
- Jerry Buchanan
- Emily Ferguson
- Don Moore
- Robert Watkins
- Ted Rains
- Joe White

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

- Scott Barber, Chief Executive Officer
- Ken Tillman, Interim Chief Financial Officer

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
BALANCE SHEETS
JUNE 30, 2014 AND 2013

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2014	2013
CURRENT ASSETS:		
Cash	\$ 156,895	\$ 418,589
Patient accounts receivable, net of estimated uncollectibles of \$1,429,151 in 2014 and \$1,424,833 in 2013	704,434	660,946
Estimated third-party payor settlements	160,842	-
Inventories	173,347	171,119
Prepaid expenses	29,197	24,132
Due from physicians	7,049	3,928
Total current assets	1,231,764	1,278,714
CAPITAL ASSETS:		
Land	63,196	63,196
Depreciable capital assets	9,629,924	9,383,988
	9,693,120	9,447,184
Less accumulated depreciation	7,812,606	7,342,036
Total capital assets, net	1,880,514	2,105,148
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred loss on bond refunding	14,815	7,205
Total assets and deferred outflows of resources	\$ 3,127,093	\$ 3,391,067

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

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 504,741	\$ 577,997
Accounts payable	1,178,735	1,056,105
Intergovernmental payable	290,762	131,535
Accrued compensated absences	219,652	194,698
Other accrued expenses	60,719	52,696
Estimated third-party payor settlements	<u>-</u>	<u>91,211</u>
 Total current liabilities	 <u>2,254,609</u>	 <u>2,104,242</u>
 LONG-TERM DEBT , less current maturities shown above		
	 <u>820,971</u>	 <u>955,924</u>
 NET POSITION:		
Net investment in capital assets	497,291	806,524
Unrestricted	<u>(445,778)</u>	<u>(475,623)</u>
 Total net position	 <u>51,513</u>	 <u>330,901</u>
 Total liabilities and net position	 <u>\$ 3,127,093</u>	 <u>\$ 3,391,067</u>

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

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
OPERATING REVENUE:		
Net patient service revenue, net of provisions for bad debts of \$830,693 in 2014 and \$974,501 in 2013	\$ 7,045,871	\$ 6,747,262
Other revenue	909,575	1,410,149
Total operating revenue	7,955,446	8,157,411
OPERATING EXPENSES:		
Salaries and benefits	4,834,768	4,469,734
Medical supplies and drugs	764,546	643,385
Other supplies	87,541	81,549
Insurance	113,459	103,981
Depreciation	484,296	457,085
Other expenses	2,336,356	2,650,952
Total operating expenses	8,620,966	8,406,686
OPERATING LOSS	(665,520)	(249,275)
NONOPERATING REVENUES (EXPENSES):		
Interest income	409	101
Contribution from Decatur County	450,000	-
Gain on disposal of capital assets	1,100	650
Interest expense	(51,395)	(90,095)
Debt issuance costs	(13,982)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	386,132	(89,344)
DEFICIT OF REVENUES OVER EXPENSES AND DECREASE IN NET POSITION	(279,388)	(338,619)
NET POSITION:		
Beginning	330,901	669,520
Ending	\$ 51,513	\$ 330,901

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

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 7,581,023	\$ 7,793,974
Cash payments to suppliers for goods and services	(4,820,173)	(4,462,886)
Cash payments to employees for services	(4,002,204)	(4,311,979)
Other revenue	909,575	1,410,149
Net cash provided (used) by operating activities	(331,779)	429,258
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Contribution from Decatur County	450,000	-
Payments on long-term debt	(132,499)	(117,456)
Interest paid	(15,708)	(35,786)
Net cash provided (used) by noncapital financing activities	301,793	(153,242)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(90,162)	(14,265)
Proceeds from sale of capital assets	1,100	650
Payments on long-term debt	(120,859)	(76,395)
Interest paid	(22,196)	(32,774)
Net cash used by capital and related financing activities	(232,117)	(122,784)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	409	101
Net cash provided by investing activities	409	101
NET INCREASE (DECREASE) IN CASH	(261,694)	153,333
CASH:		
Beginning	418,589	265,256
Ending	\$ 156,895	\$ 418,589

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

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (665,520)	\$ (249,275)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	484,296	457,085
Provision for bad debts	830,693	974,501
Change in assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable	(874,181)	(761,941)
Estimated third-party payor settlements	(160,842)	-
Inventories	(2,228)	25,488
Prepaid expenses	(5,065)	50,712
Due from physicians	(3,121)	(1,797)
Increase (decrease) in operating liabilities:		
Accounts payable	122,630	123,371
Accrued compensated absences	24,954	(68,669)
Other accrued expenses	7,816	20,132
Estimated third-party payor settlements	(91,211)	(140,349)
	<u>\$ (331,779)</u>	<u>\$ 429,258</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Equipment acquired through capital lease obligations	\$ 169,500	\$ 319,030
Bond payment paid by Decatur County	\$ 140,000	\$ 110,000
Interest payments on bonds paid by Decatur County	\$ 5,245	\$ 21,535
Bond issue cost paid by Decatur County	\$ 13,982	\$ -
Payment for refunding series 1999 revenue refunding bonds	\$ 785,000	\$ -
Issuance of series 2013 revenue refunding bonds	\$ 790,000	\$ -
Bond premium	\$ 12,779	\$ -

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

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting entity -

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

Basis of accounting -

The financial statements of the Hospital have been prepared using the economic resources measurement focus and the accrual basis of accounting.

Use of estimates -

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Net patient service revenue -

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Patient service revenue is net of contractual adjustments and policy discounts of approximately \$9,600,000 and \$8,100,000 for the years ended June 30, 2014 and 2013, respectively.

Revenue from the Medicare and TennCare programs accounted for approximately 51 and 7 percent and 50 and 8 percent for the years ended June 30, 2014 and 2013, respectively, of the Hospital's net patient service revenue. Laws and regulations governing the Medicare and TennCare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Charity care -

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital estimates that the cost of providing the supplies and services under the charity care policy was approximately \$24,000 and \$46,000, for the year ended June 30, 2014 and 2013, respectively, based on applying an average cost to charge ratio to the charges for charity care.

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

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

Operating revenues and expenses -

The Hospital'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 Hospital's principal activity. Nonexchange revenues, including interest, grants, and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Income taxes -

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

Inventories -

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

Accounts receivable -

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

Bond premiums, discounts and issuance costs:

Bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond premiums and discounts are presented as a reduction of the face amount of bonds. Issuance costs are expensed in the period in which they are incurred.

Capital assets -

Assets with a useful life of greater than one year and a cost of greater than \$1,500 are recorded as capital assets and are stated at cost. Depreciation is calculated over the estimated useful lives using the straight-line method. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. 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.

**DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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

Capital assets (continued) -

A summary of estimated useful lives follows:

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

Except for capital assets acquired through gifts, contributions, or capital grants the Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. There was no interest capitalized and incurred at June 30, 2014 and 2013.

Cash -

The Hospital considers currency on hand and demand deposits with financial institutions to be cash. The Hospital considers all highly liquid investments with original maturities of three months or less to be cash equivalents. State statutes authorize the Hospital to invest in obligations of the U.S. Treasury, bank certificates of deposit, state approved repurchase agreements, pooled investment funds, and state or local bonds, rated A or higher by a nationally recognized rating service. There were no cash equivalents at June 30, 2014 and 2013.

Risk management -

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

Net position -

Net position of the Hospital is classified in four components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *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, 2014 and 2013.

The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

**DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

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

Net position (continued) -

	2014	2013
Capital assets, net	\$ 1,880,514	\$ 2,105,148
Less -		
Current portion of long-term debt related to the acquisition of capital assets	(577,067)	(349,905)
Long-term debt, excluding current portion relating to the acquisition of capital assets	(806,156)	(948,719)
	\$ 497,291	\$ 806,524

Deferred outflows/inflows of resources -

The Hospital has 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, 2014 and 2013, the Hospital had 14,815 and \$7,205, respectively, of deferred outflows of resources from a deferred loss on bond refunding and did not have any deferred inflows of resources

(2) CASH:

For deposits, custodial risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. Collateral is required for demand deposits and certificates of deposit at 105% of all amounts not covered by a federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State of Tennessee and its subdivisions. All of the Hospital's cash and cash equivalents are insured or collateralized by securities held by the financial institutions' trust department in the Hospital's name.

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

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(3) NET PATIENT SERVICE REVENUE:

The Hospital received revenue under various third-party reimbursement programs which include Medicare, TennCare, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings and its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. The 2014 net patient service revenue increased approximately \$100,000 due to prior years retroactive adjustments more than amounts previously estimated.

Medicare -

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The Hospital is reimbursed for Medicare outpatient services under a Prospective Payment System (OPPS) based on clinical, diagnostic, and other factors. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and review by the Medicare fiscal intermediary.

TennCare -

Under the program, the Hospital enters into agreements with state contracted managed care organizations which reimburse the Hospital using various payment methodologies, such as prospectively determined rates per discharge, prospectively determined daily rates, and discounts from established charges.

Others -

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

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

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

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

payment year and thereby decreasing by 25% each payment year until it is completely phased out in the fifth year.

The Hospital recognizes EHR incentive payments as grant income when there is a reasonable assurance that the Hospital will comply with the conditions of the meaningful use objectives and any other specific grant requirements. In addition, the financial statement effects of the grants must be both recognizable and measureable. During 2014 and 2013, the Hospital recognized \$735,334 and \$1,182,450, respectively, in EHR incentive payments as grant income using the cliff recognition method. Under the cliff recognition method, the Hospital recognizes income all at once, when the EHR reporting period has ended and compliance requirements have been met.

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

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

(5) INVENTORIES:

Inventories on June 30, 2014 and 2013, consist of the following:

	2014	2013
Pharmacy	\$ 118,137	\$ 119,222
General supplies	29,336	25,541
Dietary	4,750	4,744
Laboratory	21,124	21,612
	\$ 173,347	\$ 171,119

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(6) CAPITAL ASSETS:

A summary of changes in capital assets follows:

	<u>2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014</u>
Land	\$ 63,196	\$ -	\$ -	\$ 63,196
Land improvements	153,221	-	-	153,221
Building and improvements	2,743,301	14,794	-	2,758,095
Machinery and equipment	<u>6,487,466</u>	<u>244,868</u>	<u>13,726</u>	<u>6,718,608</u>
	<u>9,447,184</u>	<u>259,662</u>	<u>13,726</u>	<u>9,693,120</u>
Less accumulated depreciation:				
Land improvements	153,221	-	-	153,221
Buildings and improvements	1,838,417	81,148	-	1,919,565
Machinery and equipment	<u>5,350,398</u>	<u>403,148</u>	<u>13,726</u>	<u>5,739,820</u>
Total accumulated depreciation	<u>7,342,036</u>	<u>484,296</u>	<u>13,726</u>	<u>7,812,606</u>
Capital assets, net	<u>\$ 2,105,148</u>	<u>\$ (224,634)</u>	<u>\$ -</u>	<u>\$ 1,880,514</u>

	<u>2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>2013</u>
Land	\$ 63,196	\$ -	\$ -	\$ 63,196
Land improvements	153,221	-	-	153,221
Building and improvements	2,739,218	4,083	-	2,743,301
Machinery and equipment	6,218,568	346,844	77,946	6,487,466
Construction in progress	<u>17,632</u>	<u>-</u>	<u>17,632</u>	<u>-</u>
	<u>9,191,835</u>	<u>350,927</u>	<u>95,578</u>	<u>9,447,184</u>
Less accumulated depreciation:				
Land improvements	153,221	-	-	153,221
Buildings and improvements	1,749,666	88,751	-	1,838,417
Machinery and equipment	<u>5,060,010</u>	<u>368,334</u>	<u>77,946</u>	<u>5,350,398</u>
Total accumulated depreciation	<u>6,962,897</u>	<u>457,085</u>	<u>77,946</u>	<u>7,342,036</u>
Capital assets, net	<u>\$ 2,228,938</u>	<u>\$ (106,158)</u>	<u>\$ 17,632</u>	<u>\$ 2,105,148</u>

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

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(7) LONG-TERM DEBT:

A summary of long-term debt at June 30, 2014 and 2013, follows:

	<u>2014</u>	<u>2013</u>
Bonds payable, series 1999	\$ -	\$ 785,000
Bonds payable, series 2013	650,000	-
Bond premium	10,649	-
Note payable to bank, payable in various monthly installments including various interest rates that increase each year, with final payment equal to entire remaining unpaid principal balance and interest, until July 2015, secured by accounts receivable and certain equipment	241,878	374,377
Capital lease obligation payable in monthly installments of \$1,833 including zero interest until June 2017, collateralized by leased equipment	64,167	88,000
Capital lease obligation payable in monthly installments of \$1,165 including computed interest at 11.199% until December 2014, collateralized by leased equipment	6,240	19,224
Capital lease obligation payable in monthly installments of \$5,632 including computed interest at 5.608% until November 2017, collateralized by leased equipment	214,195	267,320
Capital lease obligation payable in monthly installments of \$3,161 including computed interest at 4.513% until July 2018, collateralized by leased equipment	<u>138,583</u>	<u>-</u>
	1,325,712	1,533,921
Less current maturities	<u>504,741</u>	<u>577,997</u>
	<u>\$ 820,971</u>	<u>\$ 955,924</u>

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(7) LONG-TERM DEBT (Continued):

Hospital Refunding Bonds, Series 2013, dated November 27, 2013, were issued for the purpose of refunding the Series 1999 bonds. They are due in annual principal installments through 2019 and semiannual installments of interest from 1.0% to 2.0%. Hospital revenues are the source of payment. The Hospital is responsible to remit funds to the County in amounts that are sufficient to cover the scheduled debt service payments, see Note 10. The Hospital incurred a bond premium and a loss on bond refunding related to these bonds that will be amortized over the life of the bonds. The bond premium and deferred loss had a balance of \$10,649 and \$14,815 as of June 30, 2014.

Hospital Revenue and Tax Refunding and Improvement Bond Series 1999, dated April 1, 1999, were issued for the purpose of (a) advance refunding the Series 1994 bonds, and (b) financing the construction of additions to and equipping of the Hospital. They are due in annual principal installments through 2019 and semiannual installments of interest from 4.4% to 5.4%. Hospital revenues are the source of payment. The Hospital is responsible to remit funds to the County in amounts that are sufficient to cover the scheduled debt service payments, see Note 10. The Hospital incurred a loss on bond refunding related to these notes that will be amortized over the life of the bonds. The deferred loss had a balance of \$7,205 as of June 30, 2013.

The capital leased equipment have a cost of \$661,807 and \$492,307 and a carrying value of \$493,874 and \$384,757 at June 30, 2014 and 2013, respectively.

Scheduled payments on long-term debt are as follows:

Year ending June 30	Bonds and notes payable		Capital lease	
	Principal	Interest	Principal	Interest
2015	\$ 386,878	\$ 27,714	\$ 117,863	\$ 16,238
2016	150,000	9,213	116,409	11,233
2017	150,000	6,963	119,631	6,196
2018	150,000	3,963	69,282	1,453
2019	<u>55,000</u>	<u>963</u>	<u>-</u>	<u>-</u>
	<u>\$ 891,878</u>	<u>\$ 48,816</u>	<u>\$ 423,185</u>	<u>\$ 35,120</u>

Activity for long-term debt for 2014 and 2013, follows:

	2013	Additions	Deductions	2014	Amount due within one year
Bonds payable	\$ 785,000	\$ 790,000	\$ 925,000	\$ 650,000	\$ 145,000
Bond premium	-	12,779	2,130	10,649	
Notes payable	374,377	-	132,499	241,878	241,878
Capital lease	<u>374,544</u>	<u>169,500</u>	<u>120,859</u>	<u>423,185</u>	<u>117,863</u>
Total long-term debt	<u>\$ 1,533,921</u>	<u>\$ 959,500</u>	<u>\$ 1,178,358</u>	<u>\$ 1,325,712</u>	<u>\$ 504,741</u>

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(7) LONG-TERM DEBT (Continued):

	<u>2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>2013</u>	<u>Amount due within one year</u>
Bonds payable	\$ 895,000	\$ -	\$ 110,000	\$ 785,000	\$ 115,000
Notes payable	491,833	-	117,456	374,377	374,377
Capital lease	<u>131,909</u>	<u>319,030</u>	<u>76,395</u>	<u>374,544</u>	<u>88,620</u>
Total long-term debt	<u>\$ 1,518,742</u>	<u>\$ 319,030</u>	<u>\$ 303,851</u>	<u>\$ 1,533,921</u>	<u>\$ 577,997</u>

(8) COMPENSATED ABSENCES:

The Hospital provides its full-time and part-time employees with paid days off for holiday, vacation, sick leave, and bereavement absences. The Hospital stopped providing paid days off to part-time employees and cut hours earned per year to full time employees during fiscal year 2014. The paid days off begin accruing immediately, however, it is not available to the employee until they have been employed for a six month probationary period. If an employee terminates employment before one year, the paid days off are forfeited. Paid days off is based on the schedule which follows. Such days may be taken only after the employee has earned them. An employee may carry forward up to 240 hours with less than 5 years of employment and up to 320 hours with 5 or more years of employment. Such liabilities have been accrued in the accompanying balance sheets.

A summary of accruing rates follows:

2014			
<u>Full time employees'</u>		<u>Part-time employees'</u>	
<u>Years of service</u>	<u>Hours earned per year</u>	<u>Years of service</u>	<u>Hours earned per hour</u>
0-1	80	0-1	0
2-4	97	2-4	0
5-14	117.5	5-14	0
15 or more	127	15 or more	0

2013			
<u>Full time employees'</u>		<u>Part-time employees'</u>	
<u>Years of service</u>	<u>Hours earned per year</u>	<u>Years of service</u>	<u>Hours earned per hour</u>
0-1	160	0-1	0.07712
2-4	194	2-4	0.09347
5-14	235	5-14	0.11300
15 or more	254	15 or more	0.12200

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(9) PENSION PLAN:

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

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

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

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

The Plan is administered by Avintus. The Hospital may make matching contributions equal to a discretionary percentage, as determined annually by the Hospital's Retirement Trust Committee. The Hospital made a matching contribution of 3% for the years ending June 30, 2014 and 2013, respectively. Contributions made by plan members at June 30, 2014 and 2013, were \$110,539 and \$108,492, respectively. The Hospital contributions for the years ended June 30, 2014 and 2013 were \$36,892 and \$71,156, respectively.

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

(10) RELATED PARTY TRANSACTIONS:

The County has an understanding with the Hospital to remit funds to the County that will pay all amounts required to service the bonds, see Note 7. At June 30, 2014 and 2013, the Hospital was in arrears with principal and interest payment and bond issue costs of \$290,762 and \$131,535, respectively.

The Hospital received a contribution from the County in the amount of \$450,000 during 2014 to be used as needed during the course of operations. At June 30, 2014, all proceeds had been used.

**DECATUR COUNTY GENERAL HOSPITAL
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(11) COMMITMENTS AND CONTINGENCIES:

Operating leases -

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

The Hospital leases various equipment under operating lease agreements. Rent expense was \$95,279 and \$98,089 in 2014 and 2013, respectively.

A summary of future minimum payments under these leases as of June 30, 2014, is as follows:

Year ending June 30	
2015	\$ 87,221
2016	82,073
2017	60,933
2018	25,012
2019	<u>25,012</u>
	<u>\$ 280,251</u>

Professional liability and workers' compensation insurance -

The Hospital insures for medical malpractice losses through a claims-made policy with coverage of \$300,000 per each medical incident and \$700,000 in the aggregate with a \$25,000 per each medical incident deductible. Coverage for workers' compensation insurance is provided on an occurrence base policy with a primary level of coverage of \$500,000 per accident, \$500,000 per employee, and \$500,000 in the aggregate. Hospital management is unaware of any claims or incidents which would result in a loss in excess of insured amounts. As such, no accrual for estimated losses related to medical malpractice or workers' compensation have been made.

Agreement -

The Hospital has a three year agreement with Quorum Health Resources, Inc., (Quorum) for access to Quorum's sponsored volume purchasing program. The annual fee is \$12,000 for the contract year beginning August 25, 2013, increasing annually by a factor equal to the greater of five percent or the percentage increase in the Consumer Price Index, and is payable in equal monthly installments.

The Hospital had a management agreement with Quorum through August 24, 2013. The annual fee was \$120,000 for the contract year beginning August 25, 2011, increasing annually by a factor equal to the greater of five percent or the percentage increase in the Consumer Price Index, and was payable in equal monthly installments. Management services in addition to the fixed fee services were provided by Quorum as needed at varying rates. The management services provided pursuant to the fixed fee included budget assistance, accounting supervision, human resources consultations, and access to a Quorum sponsored volume purchasing program. Certain "administrative fees" could have been paid to Quorum by outside vendors that sell goods and services to the Hospital. The administrative fee that was payable to Quorum by these outside vendors was equal to 3% or less of the purchase price of the goods or services purchased from the

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(11) COMMITMENTS AND CONTINGENCIES (Continued):

Agreement (continued) -

vendor by the Hospital. The contract provided that these fees were disclosed to the Hospital annually in writing.

The total fees paid to Quorum were \$19,613 and \$126,548 in 2014 and 2013, respectively.

Litigation -

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

(12) CONCENTRATIONS OF CREDIT RISK:

The Hospital is located in Decatur County, Tennessee. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2014 and 2013, follows:

	<u>2014</u>	<u>2013</u>
Medicare	29%	31%
TennCare	12%	8%
Blue Cross/Commercial	19%	17%
Private Pay	40%	44%

(13) GOING CONCERN MATTERS:

As indicated in the accompanying financial statements, the Hospital has incurred losses from operations and current liabilities exceed its current assets. As of June 30, 2014, the operating loss included \$735,334 of EHR incentive payments (as discussed in Note 4). These factors, create an uncertainty about the Hospital's ability to continue as a going concern. Management of the Hospital is working to increase patient occupancy, assessing the feasibility of instituting new ancillary services, and working to reduce expenses through reduction of workforce and employee benefits. The ability of the Hospital to continue as a going concern is dependent on the success of these plans. The financial statements do not include any adjustments that might be necessary if the Hospital is unable to continue as a going concern.

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NOTES TO FINANCIAL STATEMENTS
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(14) RECLASSIFICATIONS:

Certain accounts in the 2013 financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

(15) SUBSEQUENT EVENTS:

The County approved in July 2014 a \$200,000 revenue anticipation note for the Hospital with no terms defined on repayment.

For the year ended June 30, 2014, the Hospital has evaluated subsequent events for potential recognition and disclosure through January 8, 2015, the date through which these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
SCHEDULE 1 - SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
NURSING SERVICES:		
Nursing administration	\$ 156,400	\$ 93,839
Medical/surgical nursing	926,161	954,775
Surgery	28,492	43,992
Emergency room	456,440	446,979
 Total nursing services	 1,567,493	 1,539,585
OTHER PROFESSIONAL SERVICES:		
Outpatient clinic	65,982	62,887
Physician clinics	360,867	273,437
Respiratory	57,876	128,102
School nurse program	75,518	54,209
Laboratory	398,242	375,328
Radiology	426,879	415,407
Pharmacy	188,572	174,477
Biomed information systems	25,832	39,327
Physical therapy	236,768	214,251
 Total other professional services	 1,836,536	 1,737,425
GENERAL SERVICES:		
IT software	152,802	126,575
Medical records	181,329	154,581
Dietary	113,925	114,499
Maintenance	79,103	75,970
Environmental services	126,621	104,113
Purchasing	25,875	60,166
JCAHO/CQI/risk management	97,740	103,373
 Total general services	 777,395	 739,277

	<u>2014</u>	<u>2013</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Human resources	23,973	48,893
General accounting	167,347	113,333
Business office	301,593	283,354
Administration	<u>160,431</u>	<u>7,867</u>
 Total administrative and fiscal services	 <u>653,344</u>	 <u>453,447</u>
 TOTAL SALARIES AND BENEFITS	 <u>\$ 4,834,768</u>	 <u>\$ 4,469,734</u>

DECATUR COUNTY GENERAL HOSPITAL
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SCHEDULE 2 - MEDICAL SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
NURSING SERVICES:		
Medical/surgical nursing	\$ 25,934	\$ 26,667
Surgery	98,448	87,208
Emergency room	28,852	25,023
 Total nursing services	 153,234	 138,898
OTHER PROFESSIONAL SERVICES:		
Outpatient clinic	1,983	2,354
Physician clinics	15,454	7,429
Respiratory	10,920	15,610
IV solutions	43,200	43,171
Laboratory	209,799	176,102
Radiology	12,621	14,889
Pharmacy	312,991	243,262
Physical therapy	4,344	1,670
 Total other professional services	 611,312	 504,487
 TOTAL MEDICAL SUPPLIES AND DRUGS	 \$ 764,546	 \$ 643,385

DECATUR COUNTY GENERAL HOSPITAL
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SCHEDULE 3 - OTHER SUPPLIES
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
NURSING SERVICES:		
Nursing administration	\$ 41	\$ -
Medical/surgical nursing	1,871	2,929
Surgery	159	221
Emergency room	<u>1,211</u>	<u>2,545</u>
Total nursing services	<u>3,282</u>	<u>5,695</u>
OTHER PROFESSIONAL SERVICES:		
Outpatient clinic	499	1,017
Physician clinics	2,553	845
Respiratory	166	1,217
IV solutions	-	150
Laboratory	3,519	1,214
Radiology	2,813	6,493
Pharmacy	1,449	1,304
Biomed information systems	1,550	165
Physical therapy	<u>494</u>	<u>336</u>
Total other professional services	<u>13,043</u>	<u>12,741</u>
GENERAL SERVICES:		
IT software	1,215	37
Medical records	1,382	1,212
Dietary	43,920	36,965
Maintenance	2,182	2,724
Environmental services	14,771	14,148
Purchasing	141	59
JCAHO/CQI/risk management	<u>308</u>	<u>228</u>
Total general services	<u>63,919</u>	<u>55,373</u>

	<u>2014</u>	<u>2013</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Human resources	721	634
Finance administration	-	446
General accounting	1,885	265
Business office	3,456	2,566
Administration	<u>1,235</u>	<u>3,829</u>
Total administrative and fiscal services	<u>7,297</u>	<u>7,740</u>
TOTAL OTHER SUPPLIES	<u>\$ 87,541</u>	<u>\$ 81,549</u>

DECATUR COUNTY GENERAL HOSPITAL
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SCHEDULE 4 - OTHER EXPENSES
YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
NURSING SERVICES:		
Nursing administration	\$ 390	\$ -
Medical/surgical nursing	25,487	51,692
Surgery	37,547	39,363
Emergency room	<u>629,880</u>	<u>590,779</u>
Total nursing services	<u>693,304</u>	<u>681,834</u>
 OTHER PROFESSIONAL SERVICES:		
Outpatient clinic	4,357	5,641
Physician clinics	6,455	11,821
Respiratory	8,325	9,974
Hospitalist	52,948	199,565
Laboratory	76,203	75,009
Radiology	603,769	580,093
Pharmacy	2,395	9,299
Biomed information systems	31,437	41,932
Physical therapy	<u>11,296</u>	<u>7,930</u>
Total other professional services	<u>797,185</u>	<u>941,264</u>
 GENERAL SERVICES:		
IT software	262,097	205,625
Medical records	35,099	38,000
Dietary	3,199	4,222
Maintenance	181,386	164,726
Environmental services	7,775	9,923
Laundry/linen	46,648	39,209
Purchasing	1,187	1,461
JCAHO/CQI/risk management	47,032	49,952
Community relations	<u>5,040</u>	<u>2,178</u>
Total general services	<u>589,463</u>	<u>515,296</u>

	<u>2014</u>	<u>2013</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Human resources	12,617	13,383
Finance administration	53,555	36,567
General accounting	18,278	11,688
Business office	96,824	94,714
Administration	73,754	356,206
Physicians billing	<u>1,376</u>	<u>-</u>
 Total administrative and fiscal services	 <u>256,404</u>	 <u>512,558</u>
 TOTAL OTHER EXPENSES	 <u>\$ 2,336,356</u>	 <u>\$ 2,650,952</u>

COMPLIANCE



**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
Decatur County General Hospital (a component unit of Decatur County, 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 Decatur County General Hospital (the Hospital) (a component unit of Decatur County, Tennessee), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated January 8, 2015, which included an explanatory paragraph addressing going concern issues with the Hospital.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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*.

The Hospital's Response to Findings

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

Purpose of this Report

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

Johnson, Nicky & Meucham, P.C.

Chattanooga, Tennessee
January 8, 2015

**DECATUR COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF DECATUR COUNTY, TENNESSEE)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2014 AND 2013**

PRIOR AUDIT FINDINGS:

Finding Control Number and Status -

2013-1The Hospital has failed to correct finding. The Hospital continues to have personnel shortage, therefore reconciliations of balance sheet accounts continued to not be done on a timely basis.

FINANCIAL STATEMENT FINDINGS:

Finding 2013-1 - Reconciliation of balance sheet accounts -

Condition. Some balance sheet accounts are not being reconciled to supporting documentation on a timely basis during the year and at year end.

Criteria. Procedures should be in place to reconcile all balance sheet accounts to supporting documentation on a timely basis.

Effect. Some general ledger accounts had material differences between the amounts calculated from the supporting documentation and the amounts per the general ledger. Journal entries were required to be made during the audit to reconcile these accounts.

Recommendation. Reconciliation of accounts should be done on a timely basis to ensure all transactions are properly recorded.

Views of Management. Management concurs with the finding. Due to personnel shortages, reconciliations of some accounts were not done on a timely basis. Management is working to taking measures to ensure all entries and reconciliations are completed on a timely basis.