

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

Dayton, Tennessee

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2014 and 2013

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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, 2014 and 2013. Please read it in conjunction with the Medical Center’s financial statements, which begin on page 3.

Financial Highlights

- The Medical Center’s net assets increased in each of the past two years with a \$484,588 or 2% increase in 2014 and a \$531,482 or 3% increase in 2013. The Medical Center reported operating income in both 2014 and 2013. Operating revenues decreased 0.7% from 2013, while operating expenses decreased 0.1% in 2014.
- In June the Medical Center received \$337,847 from the Bureau of TennCare. This amount represents the Medical Center’s portion of remaining funds for Critical Access Hospitals from Fiscal Year 2010.
- Recruited and employed a Family Practice Physician, Jim Wadzinski, M.D. The practice lost \$100,232 during the start-up and first month of practice.

Using This Annual Report

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

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

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

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

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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 Assets

The Medical Center’s net assets are the difference between its assets and liabilities reported in the Balance Sheet on pages 3 and 4. The Medical Center’s net assets increased in each of the past two years with a \$484,588 or 2% increase in 2014 and a \$531,482 or 3% increase in 2013. See Exhibit One for an illustration.

Exhibit One: Assets, Liabilities, and Net Assets

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$18,478,405	\$18,274,781	\$20,081,084
Capital assets, net,	25,148,999	26,075,247	26,683,276
Non-current cash and investments	6,014,781	5,947,655	2,168,211
Other assets	<u>246,632</u>	<u>137,348</u>	<u>463,411</u>
Total assets	<u>\$49,888,817</u>	<u>\$50,435,031</u>	<u>\$49,395,982</u>
Liabilities			
Current liabilities	\$8,057,566	\$ 8,283,368	\$ 6,863,590
Long-term debt outstanding	<u>19,617,000</u>	<u>20,422,000</u>	<u>21,203,000</u>
Total liabilities	<u>\$27,674,566</u>	<u>\$28,705,368</u>	<u>\$28,066,590</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 4,726,999	\$ 4,872,247	\$ 4,692,493
Unrestricted	<u>17,487,252</u>	<u>16,857,416</u>	<u>16,636,899</u>
Total Net Assets	<u>\$22,214,251</u>	<u>\$21,729,663</u>	<u>\$21,329,392</u>

Assets decreased by \$546,214 or 1% during 2014. Cash increased by \$406,589 in 2014 as detailed in the Statement of Cash Flows. The increase in cash was offset by a \$926,248 decrease in capital assets. Depreciation expense related to the facility and associated equipment increased accumulated depreciation by \$1,223,313. (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). Current liabilities decreased

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\$225,802 due to a \$401,535 decrease 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 decrease in estimated third-party settlements was partially offset by a \$104,517 increase in accounts payable. The long-term debt portion of liabilities decreased by \$805,000 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 Assets

The Medical Center’s net assets increased by \$484,588 or 2% in 2014 and \$531,482 or 3% in 2013, as shown in Exhibit 2. The increase in 2014 is primarily due to the increases discussed above. Operating income decreased in 2014 by \$113,510 or 18% and decreased in 2013 by \$59,471 or 8%, respectively.

Exhibit 2: Operating Results and Changes in Net Assets

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:			
Net patient service revenue	\$18,833,152	\$18,728,589	\$17,919,647
Other revenue	<u>232,894</u>	<u>470,697</u>	<u>710,223</u>
TOTAL OPERATING REVENUES	<u>\$19,066,046</u>	<u>\$19,199,286</u>	<u>\$18,629,870</u>
OPERATING EXPENSES:			
Salaries and benefits	\$9,448,174	9,522,325	9,227,163
Medical supplies and drugs	1,698,620	1,750,963	1,756,323
Other supplies	407,972	380,171	376,727
Insurance	265,857	290,341	248,077
Depreciation	1,223,313	1,254,116	1,693,147
Other expenses	<u>5,489,830</u>	<u>5,325,580</u>	<u>4,623,172</u>
TOTAL OPERATING EXPENSES	<u>18,533,766</u>	<u>18,553,496</u>	<u>17,924,609</u>
OPERATING INCOME	<u>532,280</u>	<u>645,790</u>	<u>705,261</u>

RHEA MEDICAL CENTER
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MANAGEMENT’S DISCUSSION AND ANALYSIS

NONOPERATING REVENUES (EXPENSES)

Interest income	\$92,094	\$33,920	\$72,107
Interest expense	(192,262)	(223,325)	(180,312)
Noncapital contribution	19,000	25,097	32,100
Noncapital grants	<u>33,476</u>	<u>50,000</u>	<u>20,000</u>
TOTAL NONOPERATING REVENUES (EXPENSES), net	<u>(47,692)</u>	<u>(114,308)</u>	<u>(56,105)</u>
EXCESS OF REVENUES OVER EXPENSES	484,588	531,482	649,156
Capital Grants	<u>-</u>	<u>-</u>	<u>16,000</u>
INCREASE IN NET ASSETS	484,588	531,482	665,156
Net assets at beginning of year	21,729,663	21,198,181	20,664,236
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(131,211)</u>
Net assets at end of year	<u>\$22,214,251</u>	<u>\$21,729,663</u>	<u>\$21,198,181</u>

Operating Income

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

The primary components of the operating income in 2014 are:

- Net patient service revenue decreased by \$104,563 or 0.6%. Patient revenue before deductions decreased by \$1,871,518 or 4%. The decrease was due to an across the board decline in volume. Admissions, Emergency Department visits, and outpatient visits decreased 2%, 10% and 2% respectively. The decrease in admissions and outpatient visits is due to the retirement of Dr. Tantiachai and the closing of Dr. Shah’s practice. During 2014, Dr. Wadzinski and Dr. Kellogg were recruited to fill the void of these two practices and recapture the lost volume. The decline in Emergency Department visits was not unique to the Medical Center as it was experienced by other facilities in the region due to a smaller than normal flu season.
- The decrease in patient revenue was offset by lower 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 decreased \$1,976,081 or 7% as a result of the lower revenue and \$337,847 of additional Critical Access Hospital funds discussed above.

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- Other revenue decreased by \$237,803 or 51%. Rental revenue decreased \$249,053 or 64% due to Life Care moving out of the nursing to their new building. Life Care occupied the old nursing home building for nine months in 2013.
- Salaries and related benefits decreased \$104,151 or 1%. The elimination of weekend house supervisors saved \$51,109 of salary expense. In addition to the salary savings, the change to the 457(b) retirement plan on July 1, 2012 for new employees continues to yield savings to the Medical Center compared to the Tennessee Consolidated Retirement System. Contributions to both plans totaled \$426,176 and \$500,560 in 2014 and 2013. (See Note 12 to the financial statements for details on the Medical Center's pension plans).
- Other expenses increased by \$164,250 or 3%. The increase is due to a new service that was added in the Spring City Clinic. In October 2013, Dr. Payne started offering an allergy clinic through United Allergy Services (UAS). For a per visit fee, UAS provides staff, the immunotherapy, marketing and oversight of the program.

Nonoperating Revenues

Interest income increased \$58,174 due to more funds invested for a full year and slightly better interest rates. (See Note 2 to the financial statements for an explanation of the Medical Center's deposits and investments). Interest expense on the facility decreased \$31,063 due to the low interest rate environment. (See Note 9 to the financial statements for details on the long-term debt.)

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, 2014, the Medical Center had \$25,148,999 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. During fiscal year 2014, the Medical Center purchased equipment and other depreciable assets of \$297,062 (reduced by \$1,223,310 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 decreased \$31,063 due to decreases in the interest rate. (See Note 9 to the financial statements for a detail of long-term debt).

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Other Economic Factors

The success of the Medical Center is dependent on the local economy. If companies in Rhea County lay off employees then the Medical Center could see an increase in uninsured patients which would lead to higher bad debt expense and charity care.

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

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. Alex Zotos
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, 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 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, 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.

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 24, 2014, 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 24, 2014

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS:		
Cash	\$ 7,397,879	\$ 6,991,290
Patient accounts receivable, net of estimated uncollectibles of \$1,770,000 in 2014 and \$1,820,000 in 2013	2,411,848	2,536,728
Investments	7,908,093	7,893,667
Inventories	419,511	441,187
Prepaid expenses	99,506	91,968
Other current assets	241,568	319,941
Total current assets	18,478,405	18,274,781
NONCURRENT CASH AND INVESTMENTS:		
Investments	6,014,781	5,947,655
CAPITAL ASSETS:		
Land	2,463,248	2,362,513
Depreciable assets, net of accumulated depreciation	22,657,166	23,712,734
Construction in progress	28,585	-
	25,148,999	26,075,247
OTHER ASSETS:		
Other assets	246,632	137,348
	246,632	137,348
Total assets	\$ 49,888,817	\$ 50,435,031

(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	\$ 805,000	\$ 781,000
Accounts payable	518,743	414,226
Accrued payroll	479,823	457,440
Other accrued expenses	411,982	387,149
Estimated third-party payor settlements	<u>5,842,018</u>	<u>6,243,553</u>
Total current liabilities	<u>8,057,566</u>	<u>8,283,368</u>
LONG-TERM DEBT , net of current maturities	<u>19,617,000</u>	<u>20,422,000</u>
Total liabilities	<u>27,674,566</u>	<u>28,705,368</u>
NET POSITION:		
Net investment in capital assets	4,726,999	4,872,247
Unrestricted	<u>17,487,252</u>	<u>16,857,416</u>
Total net position	<u>22,214,251</u>	<u>21,729,663</u>
Total liabilities and net position	<u>\$ 49,888,817</u>	<u>\$ 50,435,031</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Net patient service revenue	\$ 18,833,152	\$ 18,728,589
Other revenue	<u>232,894</u>	<u>470,697</u>
	<u>19,066,046</u>	<u>19,199,286</u>
OPERATING EXPENSES:		
Salaries and benefits	9,448,174	9,552,325
Medical supplies and drugs	1,698,620	1,750,963
Other supplies	407,972	380,171
Insurance	265,857	290,341
Depreciation and amortization	1,223,313	1,254,116
Other expenses	<u>5,489,830</u>	<u>5,325,580</u>
	<u>18,533,766</u>	<u>18,553,496</u>
OPERATING INCOME	<u>532,280</u>	<u>645,790</u>
NONOPERATING REVENUE (EXPENSES):		
Investment income	92,094	33,920
Interest expense	(192,262)	(223,325)
Noncapital contribution	19,000	25,097
Noncapital grants	<u>33,476</u>	<u>50,000</u>
	<u>(47,692)</u>	<u>(114,308)</u>
INCREASE IN NET POSITION	<u>484,588</u>	<u>531,482</u>
NET POSITION:		
Beginning	<u>21,729,663</u>	<u>21,198,181</u>
Ending	<u>\$ 22,214,251</u>	<u>\$ 21,729,663</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, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 14,481,404	\$ 16,159,566
Cash payments to suppliers for goods and services	(5,650,053)	(5,565,772)
Cash payments to employees for services	(7,450,347)	(7,470,385)
Other revenue	232,894	470,697
Net cash provided by operations	<u>1,613,898</u>	<u>3,594,106</u>
CASH FLOWS FROM NONCAPITAL FINANCING		
ACTIVITIES:		
Noncapital grants and contributions	52,476	75,097
Net cash provided by noncapital financing activities	<u>52,476</u>	<u>75,097</u>
CASH FLOWS FROM CAPITAL AND RELATED		
FINANCING ACTIVITIES:		
Interest paid on debt	(192,262)	(223,325)
Purchase of property and equipment	(297,065)	(646,087)
Payments on long-term debt	(781,000)	(787,783)
Net cash used by capital and related financing activities	<u>(1,270,327)</u>	<u>(1,657,195)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	67,143	57,305
Purchases of investments	(5,696,885)	(11,696,496)
Sales and maturities of investments	5,640,284	5,640,283
Net cash provided (used) by investing activities	<u>10,542</u>	<u>(5,998,908)</u>
NET INCREASE (DECREASE) IN CASH	406,589	(3,986,900)
Cash, beginning	<u>6,991,290</u>	<u>10,978,190</u>
Cash, ending	<u>\$ 7,397,879</u>	<u>\$ 6,991,290</u>

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

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 532,280	\$ 645,790
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	1,223,313	1,254,116
Provision for bad debts	4,075,093	4,245,775
Net (increase) decrease in operating assets -		
Accounts receivable	(3,950,213)	(4,265,800)
Inventories	21,676	96,262
Prepaid expenses	(7,538)	(20,085)
Other assets	(30,911)	211,487
Net increase (decrease) in operating liabilities -		
Accounts payable	104,517	(366,390)
Accrued payroll	22,383	49,802
Other accrued expenses	24,833	46,372
Estimated third-party payor settlements	<u>(401,535)</u>	<u>1,696,777</u>
Net cash provided by operations	<u>\$ 1,613,898</u>	<u>\$ 3,594,106</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, 2014 AND 2013**

(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 in 2013, due to prior year retroactive adjustments less than amounts previously estimated.

Revenue from the Medicare and Medicaid programs accounted for approximately 22 and 13 percent, respectively, for the year ended June 30, 2014, and 26 and 12 percent, respectively, for the year ended June 30, 2013, 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, 2014 AND 2013**

(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, 2014 and 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 2014 and 2013.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(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 2014 or 2013.

Bond issuance costs –

There are no bond issuance costs at June 30, 2014 or June 30, 2013.

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.

**RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(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, 2014 or 2013.

	2014	2013
Property and equipment, net	\$ 25,148,999	\$ 26,075,247
Less –		
Current portion of long-term debt related to the acquisition of property and equipment	(805,000)	(781,000)
Long-term debt, excluding current portion relating to the acquisition of property and equipment	(19,617,000)	(20,422,000)
	\$ 4,726,999	\$ 4,872,247

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

Deferred Outflows/Inflows of Resources –

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* defines 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 Medical Center did not have any deferred outflows or inflows of resources.

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

(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 \$7,655,148 and \$7,169,925 at June 30, 2014 and 2013, 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 –

	2014	2013
Investments:		
Insured by the FDIC	\$ 13,830,988	\$ 13,841,322
Uninsured	91,886	-
	<u>\$ 13,922,874</u>	<u>\$ 13,841,322</u>

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

	2014	2013
Carrying amount:		
Deposits	\$ 7,988,516	\$ 6,990,290
Certificates of deposit	13,330,987	13,841,322
Cash on hand	1,250	1,000
	<u>\$ 21,320,703</u>	<u>\$ 20,832,612</u>
Included in the following balance sheet captions:		
Cash	\$ 7,397,879	\$ 6,991,290
Current investments	8,154,672	7,893,667
Noncurrent investments	5,768,202	5,947,655
	<u>\$ 21,320,753</u>	<u>\$ 20,832,612</u>

The certificates of deposit are with various U.S. financial institutions and mature with various terms through July 2016.

**RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(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 –

	<u>2014</u>	<u>2013</u>
Gross revenues from patients	\$ 43,371,985	\$ 45,243,503
Less: Allowances for contractual adjustments	20,463,740	22,269,139
Provision for bad debts	<u>4,075,093</u>	<u>4,245,775</u>
Net patient service revenue	<u>\$ 18,833,152</u>	<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 \$426,928 in EHR incentive payments.

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(5) INVENTORIES:

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

	<u>2014</u>	<u>2013</u>
Pharmacy	\$ 130,085	\$ 154,192
General supplies	83,312	80,722
Dietary	13,152	14,762
Laboratory	39,540	33,258
X-ray	16,113	10,467
Surgery	<u>137,309</u>	<u>147,786</u>
	<u>\$ 419,511</u>	<u>\$ 441,187</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. This money has been used for its designated purpose.

(7) CAPITAL ASSETS:

A summary of changes in capital assets follows –

	<u>2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>2014</u>
Land	\$ 2,362,513	\$ 100,735	\$ -	\$ -	\$ 2,463,248
Land improvements	134,095	-	-	-	134,095
Buildings and improvements	28,113,812	-	-	-	28,113,812
Major moveable equipment	12,623,170	136,225	(11,997)	31,517	12,778,915
Fixed equipment	941,525	-	-	-	941,525
Construction in progress	-	<u>60,102</u>	-	<u>(31,517)</u>	<u>28,585</u>
Totals at historical cost	<u>44,175,115</u>	<u>297,062</u>	<u>(11,997)</u>	<u>-</u>	<u>44,460,180</u>
Less accumulated depreciation for:					
Land improvements	70,835	3,986	-	-	74,821
Buildings and improvements	7,460,171	694,039	-	-	8,154,210
Major moveable equipment	9,762,196	523,802	(11,997)	-	10,274,001
Fixed equipment	<u>806,666</u>	<u>1,483</u>	<u>-</u>	<u>-</u>	<u>808,149</u>
	<u>18,099,868</u>	<u>1,223,310</u>	<u>(11,997)</u>	<u>-</u>	<u>19,311,181</u>
Property and equipment, net	<u>\$ 26,075,247</u>	<u>\$ (926,248)</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 25,148,999</u>

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(7) CAPITAL ASSETS (Continued):

	<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	497,935	-	-	(497,935)	-
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	805,182	1,484	-	-	806,666
	<u>16,293,773</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>

The Medical Center capital assets above include idle property at June 30, 2014 and 2013 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, 2014 and 2013, respectively, the assets totaled \$408,455 and \$430,145, net of accumulated amortization.

Other assets also include various lease deposits and prepayments totaling \$79,745 and \$27,144 at June 30, 2014 and 2013, respectively.

(9) LONG-TERM DEBT:

	<u>2014</u>	<u>2013</u>
Loan agreement	\$ 20,422,000	\$ 21,203,000
Less current maturities	<u>805,000</u>	<u>781,000</u>
Long-term debt, net of current maturities	<u>\$ 19,617,000</u>	<u>\$ 20,422,000</u>

**RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(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 (0.85% at June 30, 2014).

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

Scheduled payments on long-term debt are as follows –

		<u>Long-Term Debt</u>	
		<u>Principal</u>	<u>Interest *</u>
June 30,	2015	\$ 805,000	\$ 170,166
	2016	830,000	163,217
	2017	856,000	156,052
	2018	882,000	148,665
	2019	910,000	141,049
	2020-2024	4,990,000	582,463
	2025-2029	5,815,000	353,281
	2030-2033	<u>5,334,000</u>	<u>92,404</u>
		<u>\$ 20,422,000</u>	<u>\$ 1,807,297</u>

*Future interest payments are based on the loan amounts outstanding and interest rates in effect at June 30, 2014, and do not necessarily represent the payments that will be required.

Activity for long-term debt as of June 30, 2014 and 2013 follows –

	<u>2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>2014</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 21,203,000	\$ -	\$ 781,000	\$ 20,422,000	\$ 805,000
Capital lease	-	-	-	-	-
	<u>\$ 21,203,000</u>	<u>\$ -</u>	<u>\$ 781,000</u>	<u>\$ 20,422,000</u>	<u>\$ 805,000</u>

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(9) LONG-TERM DEBT (Continued):

	<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	29,783	-	29,783	-	-
	<u>\$ 21,990,783</u>	<u>\$ -</u>	<u>\$ 787,783</u>	<u>\$ 21,203,000</u>	<u>\$ 781,000</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 \$289,278 and \$294,296 for 2014 and 2013, 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 \$316,000 and \$297,000 during the years ended June 30, 2014 and 2013, 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.

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 its 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.

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

(12) PENSION PLANS (Continued):

Contributions to both plans by the Medical Center totaled \$426,176 and \$500,560 in 2014 and 2013, respectively. Contributions to both plans by Medical Center employees totaled \$322,708 and \$311,159 in 2014 and 2013, respectively.

(13) WORKING CAPITAL:

Net working capital at June 30, 2014 and 2013, was \$10,420,839 and \$9,991,413, 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 \$232,154 and \$214,822 in 2014 and 2013, respectively.

Future minimum lease payments under operating leases are as follows –

For the year ending	June 30, 2015	\$ 52,008
	2016	52,008
	2017	<u>47,674</u>
		<u>\$ 151,690</u>

The Medical Center leases space to physicians and others under leases with various terms. Total rental income for all operating leases was \$141,019 and \$390,072 for 2014 and 2013, 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 –

	<u>2014</u>	<u>2013</u>
Cost	\$ 3,985,190	\$ 3,985,190
Accumulated depreciation	<u>3,401,385</u>	<u>3,336,851</u>
	<u>\$ 583,805</u>	<u>\$ 648,339</u>

**RHEA MEDICAL CENTER (A COMPONENT UNIT OF
RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(14) COMMITMENTS AND CONTINGENCIES (Continued):

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 \$312,441 and \$304,059 in 2014 and 2013, 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.

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 \$431,460 and \$411,919 for 2014 and 2013, 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.

**RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(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, 2014 and 2013, follows –

	2014	2013
Medicare	22%	21%
Medicaid/TennCare	4	4
Blue Cross	7	5
Commercial	13	10
Private pay	54	60
	<u>100%</u>	<u>100%</u>

(16) SUBSEQUENT EVENTS:

The Medical Center noted no transactions that would provide evidence about material conditions that did not exist at the balance sheet date but arose subsequently, through the date these financial statements were available to be issued, November 24, 2014.

SUPPLEMENTARY INFORMATION

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 1 - NET PATIENT SERVICE REVENUE
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
DAILY PATIENT SERVICES:		
Intensive care unit	\$ 148,342	\$ 175,532
Routine care	<u>2,781,327</u>	<u>2,515,490</u>
	<u>2,929,669</u>	<u>2,691,022</u>
 OTHER NURSING SERVICES:		
Central supply	1,754,598	1,697,208
Emergency room	9,950,049	10,293,487
Operating and recovery rooms	<u>2,020,845</u>	<u>2,333,568</u>
	<u>13,725,492</u>	<u>14,324,263</u>
 OTHER PROFESSIONAL SERVICES:		
Anesthesiology	488,253	607,300
Bone densitometry	112,476	126,450
Cardiac rehabilitation	94,814	131,195
CT scans	8,732,268	9,445,741
Electrocardiology	323,444	340,933
Industrial nursing	135,860	141,777
Intravenous therapy	401,749	438,328
Laboratory	5,466,894	5,759,628
MRI	53,529	59,090
Nuclear medicine	2,932,322	3,028,251
Pharmacy	1,854,278	1,890,055
Physical therapy	1,893,450	2,002,219
Radiology	2,486,284	2,656,141
Respiratory therapy	1,038,166	937,386
Speech therapy	394,350	349,997
Vascular studies	<u>308,687</u>	<u>313,727</u>
	<u>26,716,824</u>	<u>28,228,218</u>
 GROSS PATIENT SERVICE REVENUE	 <u>43,371,985</u>	 <u>45,243,503</u>

	<u>2014</u>	<u>2013</u>
CONTRACTUAL ADJUSTMENTS AND ALLOWANCES:		
Bad debts	4,075,093	4,245,775
Blue Cross	2,794,601	2,828,858
Employee discounts	36,625	31,176
Medicare and Medicaid	15,234,022	16,663,776
Other policy discounts	<u>2,398,492</u>	<u>2,745,329</u>
	<u>24,538,833</u>	<u>26,514,914</u>
	<u>\$ 18,833,152</u>	<u>\$ 18,728,589</u>

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 2 - OTHER OPERATING REVENUE
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cafeteria revenue	\$ 64,366	\$ 58,181
Patient histories	682	930
Rental revenue	141,019	390,072
Vending revenue	1,411	1,577
Miscellaneous	<u>25,416</u>	<u>19,937</u>
	<u>\$ 232,894</u>	<u>\$ 470,697</u>

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 3 - SALARIES AND BENEFITS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
NURSING SERVICES:		
Central supply	\$ 35,002	\$ 34,349
Emergency room	1,240,228	1,244,966
Intensive care unit	113,252	141,219
Nursing	1,156,419	1,276,486
Operating and recovery rooms	450,691	452,110
	<u>2,995,592</u>	<u>3,149,130</u>
OTHER PROFESSIONAL SERVICES:		
Cardiac rehab	62,812	67,301
Clinic	252,972	182,819
CT scans	66,268	60,265
Industrial nursing	81,826	83,581
Laboratory	518,754	531,875
MRI	64,466	62,657
Nuclear medicine	286,722	275,621
Pharmacy	208,780	227,296
Radiology	527,850	553,900
Respiratory therapy	271,037	255,591
Speech therapy	100,809	79,183
	<u>2,442,296</u>	<u>2,380,089</u>
GENERAL SERVICES:		
Building operation and maintenance	123,315	108,555
Dietary	211,744	211,765
Housekeeping	234,717	224,624
Medical records	226,696	217,653
Materials management	50,738	50,777
	<u>847,210</u>	<u>813,374</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Administrative and business offices	<u>3,163,076</u>	<u>3,209,732</u>
	<u>\$ 9,448,174</u>	<u>\$ 9,552,325</u>

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 4 - MEDICAL SUPPLIES AND DRUGS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
NURSING SERVICES:		
Central supply	\$ 556,617	\$ 493,370
Emergency room	49,041	49,631
Intensive care unit	-	34
Nursing	33,044	30,546
Operating and recovery rooms	120,007	171,761
	<u>758,709</u>	<u>745,342</u>
 OTHER PROFESSIONAL SERVICES:		
Cardiac rehab	842	1,287
Clinic	496	5,520
CT scans	49,373	50,271
Intravenous therapy	28,110	26,649
Laboratory	376,299	385,911
MRI	7,354	6,242
Nuclear medicine	47,645	55,050
Pharmacy	385,834	406,922
Physical therapy	5,162	8,952
Radiology	-	14,662
Respiratory therapy	37,002	41,005
Speech therapy	1,794	3,150
	<u>939,911</u>	<u>1,005,621</u>
	<u>\$ 1,698,620</u>	<u>\$ 1,750,963</u>

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 5 - OTHER SUPPLIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
NURSING SERVICES:		
Central supply	\$ 1,227	\$ 804
Emergency room	13,149	8,453
Nursing	13,871	11,094
Operating and recovery rooms	<u>4,665</u>	<u>3,286</u>
	<u>32,912</u>	<u>23,637</u>
OTHER PROFESSIONAL SERVICES:		
Cardiac rehab	1,150	842
Clinic	14,223	15,124
CT scans	6,681	6,424
Industrial nursing	12,941	13,813
Laboratory	5,054	3,143
MRI	73	-
Nuclear medicine	148	157
Pharmacy	3,115	1,885
Physical therapy	3,308	3,063
Radiology	4,040	5,659
Respiratory therapy	<u>243</u>	<u>313</u>
	<u>50,976</u>	<u>50,423</u>
GENERAL SERVICES:		
Building operation and maintenance	21,485	27,909
Dietary	166,907	165,238
Gift shop	10,515	11,308
Housekeeping	50,606	50,618
Laundry	-	346
Materials management	1,297	-
Medical records	1,758	1,799
Professional building	<u>1,386</u>	<u>116</u>
	<u>253,954</u>	<u>257,334</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Administrative and business office	<u>70,130</u>	<u>48,777</u>
	<u>\$ 407,972</u>	<u>\$ 380,171</u>

RHEA MEDICAL CENTER
(A COMPONENT UNIT OF RHEA COUNTY, TENNESSEE)
SCHEDULE 6 - OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
NURSING SERVICES:		
Central supply	\$ 332	\$ 272
Emergency room	18,938	24,032
Nursing	26,006	62,276
Operating and recovery rooms	<u>186,674</u>	<u>177,939</u>
	<u>231,950</u>	<u>264,519</u>
 OTHER PROFESSIONAL SERVICES:		
Anesthesiology	60,000	75,395
Bone densitometry	4,300	4,300
Cardiac rehab	2,343	7,214
Clinic	470,358	202,517
CT scans	87,750	87,750
Industrial nursing	25,929	32,348
Laboratory	280,646	255,144
Nuclear medicine	184,052	163,364
Pharmacy	35,580	38,478
Physical therapy	638,699	640,183
Physicians	574,680	616,778
Radiology	104,974	98,260
Respiratory therapy	17,722	16,174
Speech therapy	<u>255</u>	<u>7,670</u>
	<u>2,487,288</u>	<u>2,245,575</u>
 GENERAL SERVICES:		
Building operation and maintenance	839,060	755,988
Dietary	17,173	15,090
Gift shop	-	44
Housekeeping	14,665	21,312
Laundry	124,461	139,757
Materials management	224	305
Medical records	92,245	84,109
Professional building	<u>39,567</u>	<u>33,809</u>
	<u>1,127,395</u>	<u>1,050,414</u>
 ADMINISTRATIVE AND FISCAL SERVICES:		
Administrative and business office	<u>1,643,197</u>	<u>1,765,072</u>
	<u>\$ 5,489,830</u>	<u>\$ 5,325,580</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, 2014, and the related notes to the financial statements and have issued our report thereon dated November 24, 2014.

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 & Meacham, P.C.

Chattanooga, Tennessee
November 24, 2014

