

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

*Audited Combined Financial Statements
(and Other Information)*

Years Ended June 30, 2008 and 2007

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Audited Combined Financial Statements (and Other Information)

Years Ended June 30, 2008 and 2007

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Williamson County Hospital District:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Williamson County Hospital District (Williamson Medical Center) (the Medical Center), a component unit of Williamson County, Tennessee, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Medical Center's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate for the circumstances, but not for expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Williamson County Hospital District as of June 30, 2008 and 2007, and the respective changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2008 on our consideration of Williamson County Hospital District'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Perishing Yoakley & Associates, P.C.

Knoxville, Tennessee
September 12, 2008

Management's Discussion and Analysis

WILLIAMSON COUNTY HOSPITAL DISTRICT (WILLIAMSON MEDICAL CENTER)

Management's Discussion and Analysis

This section presents management's discussion and analysis of the financial performance of Williamson County Hospital District (Williamson Medical Center) (the Medical Center) for the fiscal years ended June 30, 2008 and 2007. Please read this discussion in conjunction with the Medical Center's combined financial statements and accompanying footnotes.

USING THE ANNUAL FINANCIAL REPORT

The Medical Center is operated and maintained by Williamson County, Tennessee (the County). The County Commission adopted a resolution in 1992, in conjunction with acquiring title to the property and equipment of the District, giving the District complete authority and responsibility to manage and operate the Medical Center as provided in Chapter 107 of the Private Act of 1957 passed by the Tennessee legislature. For financial reporting purposes, the Medical Center is considered a component unit of the County.

The combined financial statements include the accounts and operations of the Medical Center, as well as those of the Williamson Medical Center Foundation, a discretely presented component unit. The Medical Center follows the accrual method of accounting. Revenues are recognized in the period earned; expenses are recorded at the time liabilities are incurred.

The combined financial statements consist of balance sheets, statements of revenue, expenses and changes in net assets and statements of cash flows. The accompanying notes to the combined financial statements are an integral part of the combined financial statements and are essential to understanding the data contained in the combined financial statements. The combined balance sheets provide descriptions of the Medical Center's assets and liabilities and are an indication of the Medical Center's financial position. The combined statements of revenues, expenses and changes in net assets report the revenues and expenses related to the Medical Center's activities. The combined statements of cash flows report the cash provided and used by operating, investing, capital, financing and other activities.

The Medical Center applies all applicable Governmental Accounting Standards Board (GASB) pronouncements in accounting and reporting as well as the following pronouncements issued after November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins.

NOTEWORTHY FINANCIAL ACTIVITY

- Current assets increased significantly related to an increase in accounts receivable of slightly more than \$5 million. At the end of fiscal year 2007, net accounts receivable days were 63.3 and at the end of fiscal year 2008 net accounts receivable days were 71.6.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Management's Discussion and Analysis - Continued

NOTEWORTHY FINANCIAL ACTIVITY - Continued

- Property and equipment net of accumulated depreciation increased by \$7.5 million. Construction of a parking garage scheduled to be complete in the fall of 2008 is the majority of this addition. Other increases to equipment include a new cardiac cath lab and other equipment.
- Invested in capital assets, net of related debt increased by \$6.2 million related to the additions to property and equipment previously mentioned and the issuance of related debt during the current year.
- Unrestricted net assets increased by \$6.7 million related to current year earnings net of the amounts invested in capital assets, net of related debt previously mentioned.
- Gross patient service charges for the Medical Center increased by \$49 million or 18%. Most fees were increased by 15% in fiscal year 2008. Measures of patient activity are as follows:

	<i>Year Ended June 30,</i>	
	<i>2008</i>	<i>2007</i>
Patient days	35,905	34,991
Equivalent patient days	78,891	77,317
Surgery minutes	785,385	728,974
Case mix index	1.21	1.16

- Net patient service revenue increased by \$12.9 million from the prior year. The increase in net patient service revenue is attributable to a combination of fee increases and a change in the complexity of cases. There were marginal volume increases. Net patient service revenue by payor is as follows:

	<i>Year Ended June 30,</i>		<i>Actual Percentage</i>
	<i>2008</i>	<i>2007</i>	<i>Point Changes</i>
Medicare	38.36%	36.80%	1.56
Managed care	13.18%	14.30%	-1.12
Commercial	11.15%	11.90%	-0.75
TennCare	5.69%	5.70%	-0.01
Self pay	4.94%	4.50%	0.44
Blue Cross	26.68%	26.80%	-0.12
	<u>100.00%</u>	<u>100.00%</u>	

- Salaries wages and benefits increased \$4.7 million or 7%. Full Time Equivalents (FTEs) were 1,084 and 1,146 in fiscal years 2007 and 2008, respectively. Overall benefit cost

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Management's Discussion and Analysis - Continued

NOTEWORTHY FINANCIAL ACTIVITY - Continued

increased 6%. Favorable changes in the Group hospitalization plan and workers compensation enabled less than expected increases to employee benefits.

- Investment income decreased by \$568,967 related to the interest earned on the Medical Center's cash deposits. Our earnings are tied to the Federal Fund rate which has decreased significantly.

FINANCIAL POSITION

	<i>June 30,</i>	
	<i>2008</i>	<i>2007</i>
Assets:		
Current assets	\$ 33,068,172	\$ 28,914,762
Property and equipment, net	116,363,509	108,862,043
Non-current assets limited as to use	31,426,897	29,008,019
Other non-current assets	2,644,785	3,018,314
Total assets	<u>\$ 183,503,363</u>	<u>\$ 169,803,138</u>
Liabilities:		
Current liabilities	\$ 15,875,926	\$ 16,048,087
Bonds, notes payable and obligations under capital lease	43,411,792	42,378,582
Total liabilities	<u>\$ 59,287,718</u>	<u>\$ 58,426,669</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 68,681,541	\$ 62,501,742
Restricted expendable net assets	829,513	875,520
Unrestricted	54,704,591	47,999,207
Total net assets	<u>\$ 124,215,645</u>	<u>\$ 111,376,469</u>

As of June 30, 2008, the Medical Center's current assets of \$33.1 million were sufficient to cover current liabilities of \$15.9 million (current ratio of 2.1).

Total liabilities were \$59.3 million at June 30, 2008, compared to \$58.4 million at June 30, 2007. New debt related to the construction of the parking garage and the purchase of new ambulances, offset by the principal repayment of bonds and notes payable account for this increase.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE MEDICAL CENTER'S NET ASSETS

	<i>Year Ended June 30,</i>	
	<i>2008</i>	<i>2007</i>
Operating revenues:		
Net patient service revenue	\$ 132,443,842	\$ 119,520,522
Other operating revenue	8,363,080	8,077,199
Total operating revenues	140,806,922	127,597,721
Operating expenses:		
Salaries, wages and benefits	71,400,804	66,697,054
Supplies and other	48,596,626	45,178,250
Depreciation and amortization	8,372,319	7,443,905
Total operating expenses	128,369,749	119,319,209
Operating income	12,437,173	8,278,512
Nonoperating revenue (expenses):		
Investment income	1,699,752	2,268,719
Interest expense	(2,135,820)	(2,369,294)
Loss on investment in joint venture	(102,852)	(454,643)
Other, net	685,360	936,350
Nonoperating revenues, net	146,440	381,132
Revenue and gains in excess of expenses and losses	12,583,613	8,659,644
Capital grants and contributions	255,563	182,634
Increase in net assets	12,839,176	8,842,278
Net assets, beginning of year	111,376,469	102,534,191
Net assets, end of year	\$ 124,215,645	\$ 111,376,469

Total operating revenues for 2008 are comprised of net patient service revenue (\$132 million) and other operating revenue (\$8.4 million). Net patient service revenue for 2008 represents 41.2% of gross service charges, down from 43.9% of gross charges in 2007. Contractual arrangements with third-party payors, bad debt and charity care account for the difference between gross service charges and net patient service revenue.

Total operating expenses for 2008, including depreciation and amortization of \$8.4 million, were \$128 million. The salaries, wages and benefits expense accounted for 55.6% of the 2008 total

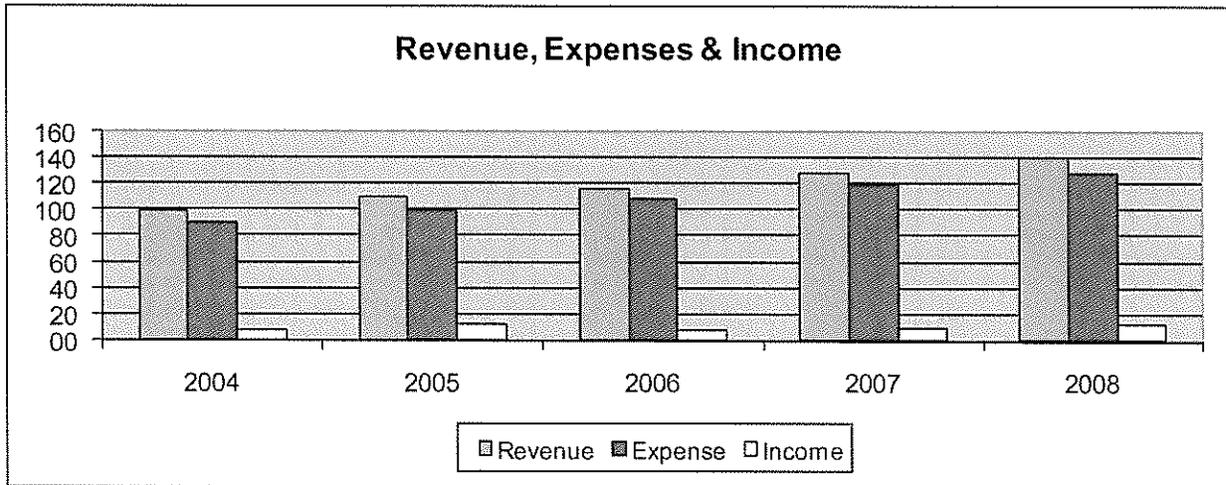
**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE MEDICAL CENTER'S NET ASSETS
- Continued

operating expenses (down from 55.9% in 2007) and were responsible for \$4.7 million of the \$9.1 million total operating expense growth from the prior year.

The operating income to total operating revenue margin for fiscal year 2008 was 8.8% compared to 6.5% for 2007. The graph below reflects the total operating revenue, operating expense and excess of revenues over expenses by fiscal year for the past five years:



THE MEDICAL CENTER'S CASH FLOWS

Changes in the Medical Center's cash flows are generally consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier, and reflect cash provided by operating activities, noncapital and capital related financing activities and investing activities. Cash used in capital financing activities was primarily for capital expenditures and debt repayment.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2008, the Medical Center had \$116.4 million invested in capital assets, net of accumulated depreciation, as detailed in Note F to the combined financial statements. In 2008, the Medical Center purchased or otherwise added to property and equipment, net of transfers from construction in progress, approximately \$15.9 million compared to \$15.5 million in the prior year.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Management's Discussion and Analysis - Continued

REQUEST FOR INFORMATION

The Combined Financial Statements and Management's Discussion and Analysis are designed to provide a summary and general overview of the Medical Center's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Chief Financial Officer of Williamson Medical Center at 4321 Carothers Parkway, Franklin, Tennessee 37067.

Audited Combined Financial Statements

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Combined Balance Sheets

June 30, 2008

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
ASSETS			
CURRENT ASSETS:			
Cash	\$ 1,321,631	\$ -	\$ 1,321,631
Assets limited as to use required to meet current obligations	2,654,394	-	2,654,394
Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$6,657,101	25,964,924	-	25,964,924
Other receivables	816,183	24,515	840,698
Inventories	1,703,572	-	1,703,572
Prepaid expenses	582,953	-	582,953
TOTAL CURRENT ASSETS	33,043,657	24,515	33,068,172
ASSETS LIMITED AS TO USE, less amounts required to meet current obligations:			
By Board for capital improvements	30,609,482	-	30,609,482
By Board for bond principal and interest payments	2,654,394	-	2,654,394
By donors	44,083	773,332	817,415
TOTAL ASSETS LIMITED AS TO USE	33,307,959	773,332	34,081,291
Less: amount classified as current	(2,654,394)		(2,654,394)
	30,653,565	773,332	31,426,897
PROPERTY AND EQUIPMENT, net	116,363,509	-	116,363,509
OTHER ASSETS:			
Other receivables, less current portion	1,446,914	-	1,446,914
Investment in joint ventures	946,014	-	946,014
Bond issuance costs, net of accumulated amortization	251,857	-	251,857
TOTAL OTHER ASSETS	2,644,785	-	2,644,785
TOTAL ASSETS	\$ 182,705,516	\$ 797,847	\$ 183,503,363

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$ 4,101,220	\$ 12,417	\$ 4,113,637
Accrued payroll, compensated absences and payroll related liabilities	4,429,786	-	4,429,786
Accrued expenses and other liabilities	2,316,127	-	2,316,127
Accrued interest expense	226,314	-	226,314
Current portion of bonds and notes payable	4,237,345	-	4,237,345
Current portion of obligations under capital leases	32,831	-	32,831
Estimated amounts due to third-party payors	519,886	-	519,886
TOTAL CURRENT LIABILITIES	15,863,509	12,417	15,875,926
BONDS AND NOTES PAYABLE, excluding current portion	43,370,085	-	43,370,085
OBLIGATIONS UNDER CAPITAL LEASES, excluding current portion	41,707	-	41,707
TOTAL LIABILITIES	59,275,301	12,417	59,287,718
COMMITMENTS AND CONTINGENCIES - Note N			
NET ASSETS:			
Invested in capital assets, net of related debt	68,681,541	-	68,681,541
Restricted	44,083	785,430	829,513
Unrestricted	54,704,591	-	54,704,591
TOTAL NET ASSETS	123,430,215	785,430	124,215,645
TOTAL LIABILITIES AND NET ASSETS	\$ 182,705,516	\$ 797,847	\$ 183,503,363

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Combined Balance Sheets

June 30, 2007

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
ASSETS			
CURRENT ASSETS:			
Cash	\$ 853,533	\$ -	\$ 853,533
Assets limited as to use required to meet current obligations	4,787,450	-	4,787,450
Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$7,791,742	20,718,269	-	20,718,269
Other receivables	541,385	36,794	578,179
Inventories	1,650,889	-	1,650,889
Prepaid expenses	326,442	-	326,442
TOTAL CURRENT ASSETS	28,877,968	36,794	28,914,762
ASSETS LIMITED AS TO USE, less amounts required to meet current obligations:			
By Board for capital improvements	30,193,025	-	30,193,025
By Board for bond principal and interest payments	2,763,718	-	2,763,718
By donors	33,825	804,901	838,726
TOTAL ASSETS LIMITED AS TO USE	32,990,568	804,901	33,795,469
Less: amount classified as current	(4,787,450)	-	(4,787,450)
	28,203,118	804,901	29,008,019
PROPERTY AND EQUIPMENT, net	108,862,043	-	108,862,043
OTHER ASSETS:			
Other receivables, less current portion	1,680,562	-	1,680,562
Investment in joint ventures	1,060,634	-	1,060,634
Bond issuance costs, net of accumulated amortization	277,118	-	277,118
TOTAL OTHER ASSETS	3,018,314	-	3,018,314
TOTAL ASSETS	\$ 168,961,443	\$ 841,695	\$ 169,803,138

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	\$ 5,110,270	\$ -	\$ 5,110,270
Accrued payroll, compensated absences and payroll related liabilities	4,278,978	-	4,278,978
Accrued expenses and other liabilities	2,055,620	-	2,055,620
Accrued interest expense	261,500	-	261,500
Current portion of bonds and notes payable	3,981,719	-	3,981,719
Estimated amounts due to third-party payors	360,000	-	360,000
TOTAL CURRENT LIABILITIES	16,048,087	-	16,048,087
BONDS AND NOTES PAYABLE, excluding current portion	42,378,582	-	42,378,582
TOTAL LIABILITIES	58,426,669	-	58,426,669
COMMITMENTS AND CONTINGENCIES - Note N			
NET ASSETS:			
Invested in capital assets, net of related debt	62,501,742	-	62,501,742
Restricted	33,825	841,695	875,520
Unrestricted	47,999,207	-	47,999,207
TOTAL NET ASSETS	110,534,774	841,695	111,376,469
TOTAL LIABILITIES AND NET ASSETS	\$ 168,961,443	\$ 841,695	\$ 169,803,138

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Combined Statements of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2008

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
OPERATING REVENUES:			
Net patient service revenue	\$ 132,443,842	\$ -	\$ 132,443,842
Other revenue	8,363,080	-	8,363,080
TOTAL OPERATING REVENUES	140,806,922	-	140,806,922
OPERATING EXPENSES:			
Salaries, wages and benefits	71,400,804	-	71,400,804
Supplies and other	48,596,626	-	48,596,626
Depreciation and amortization	8,372,319	-	8,372,319
TOTAL OPERATING EXPENSES	128,369,749	-	128,369,749
OPERATING INCOME	12,437,173	-	12,437,173
NONOPERATING REVENUES (EXPENSES):			
Investment income	1,699,752	-	1,699,752
Interest expense	(2,135,820)	-	(2,135,820)
Loss on investment in joint venture	(102,852)	-	(102,852)
Other, net	986,930	(301,570)	685,360
NET NONOPERATING REVENUES (EXPENSES)	448,010	(301,570)	146,440
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	12,885,183	(301,570)	12,583,613
CAPITAL GRANTS AND CONTRIBUTIONS	10,258	245,305	255,563
INCREASE (DECREASE) IN NET ASSETS	12,895,441	(56,265)	12,839,176
NET ASSETS, BEGINNING OF THE YEAR	110,534,774	841,695	111,376,469
NET ASSETS, END OF THE YEAR	\$ 123,430,215	\$ 785,430	\$ 124,215,645

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Combined Statements of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
OPERATING REVENUES:			
Net patient service revenue	\$ 119,520,522	\$ -	\$ 119,520,522
Other revenue	8,077,199	-	8,077,199
TOTAL OPERATING REVENUES	127,597,721	-	127,597,721
OPERATING EXPENSES:			
Salaries, wages and benefits	66,697,054	-	66,697,054
Supplies and other	45,178,250	-	45,178,250
Depreciation and amortization	7,443,905	-	7,443,905
TOTAL OPERATING EXPENSES	119,319,209	-	119,319,209
OPERATING INCOME	8,278,512	-	8,278,512
NONOPERATING REVENUES (EXPENSES):			
Investment income	2,268,719	-	2,268,719
Interest expense	(2,369,294)	-	(2,369,294)
Loss on investment in joint venture	(454,643)	-	(454,643)
Other, net	936,350	-	936,350
NET NONOPERATING REVENUES	381,132	-	381,132
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	8,659,644	-	8,659,644
CAPITAL GRANTS AND CONTRIBUTIONS	6,240	176,394	182,634
INCREASE IN NET ASSETS	8,665,884	176,394	8,842,278
NET ASSETS, BEGINNING OF THE YEAR	101,868,890	665,301	102,534,191
NET ASSETS, END OF THE YEAR	\$ 110,534,774	\$ 841,695	\$ 111,376,469

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Combined Statements of Cash Flows

Year Ended June 30, 2008

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from and on behalf of patients	\$ 126,432,714	\$ -	\$ 126,432,714
Receipts from other operations	3,793,671	-	3,793,671
Rent receipts	2,682,467	-	2,682,467
Payments to suppliers and contractors	(47,403,073)	-	(47,403,073)
Payments to employees	(71,249,996)	-	(71,249,996)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,255,783	-	14,255,783
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Contributions from others	10,258	-	10,258
Contributions received from Williamson County	1,845,792	-	1,845,792
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,856,050	-	1,856,050
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital expenditures, net	(17,075,460)	-	(17,075,460)
Principal paid on bonds and notes payable	(11,324,411)	-	(11,324,411)
Proceeds from the issuance of debt	12,571,540	-	12,571,540
Repayment of obligations under capital leases	(25,457)	-	(25,457)
Interest paid on capital debt	(2,171,006)	-	(2,171,006)
Contributions to (made by) the Foundation, net	-	(31,569)	(31,569)
NET CASH USED IN CAPITAL AND RELATED FINANCIAL ACTIVITIES	(18,024,794)	(31,569)	(18,056,363)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease in other long-term investments	11,768	-	11,768
Investment income	1,699,752	-	1,699,752
Other, net	986,930	-	986,930
NET CASH PROVIDED BY INVESTING ACTIVITIES	2,698,450	-	2,698,450
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	785,489	(31,569)	753,920
CASH AND CASH EQUIVALENTS, beginning of year	33,844,101	804,901	34,649,002
CASH AND CASH EQUIVALENTS, end of year	\$ 34,629,590	\$ 773,332	\$ 35,402,922

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:			
Cash	\$ 1,321,631	\$ -	\$ 1,321,631
Assets limited as to use by Board for capital improvements and bond principal and interest payments	33,263,876	-	33,263,876
Cash assets limited as to use by donors	44,083	773,332	817,415
Cash and cash equivalents	<u>34,629,590</u>	<u>773,332</u>	<u>35,402,922</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	12,437,173	-	12,437,173
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	8,372,319	-	8,372,319
Estimated provision for bad debts	9,488,582	-	9,488,582
Contributions from Williamson County	(1,845,792)	-	(1,845,792)
Increase (decrease) in cash due to changes in:			
Patient accounts receivable, net	(14,735,237)	-	(14,735,237)
Other receivables	(41,150)	-	(41,150)
Inventories	(52,683)	-	(52,683)
Prepaid expenses	(256,511)	-	(256,511)
Accounts payable	317,881	-	317,881
Accrued payroll, compensated absences and payroll related liabilities	150,808	-	150,808
Accrued expenses and other liabilities	260,507	-	260,507
Estimated amounts due to third-party payors	159,886	-	159,886
Total adjustments	<u>1,818,610</u>	<u>-</u>	<u>1,818,610</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 14,255,783</u>	<u>\$ -</u>	<u>\$ 14,255,783</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Construction related accounts payable	<u>\$ 1,256,508</u>	<u>\$ -</u>	<u>\$ 1,256,508</u>
Capital lease obligations for equipment	<u>\$ 99,995</u>	<u>\$ -</u>	<u>\$ 99,995</u>

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Combined Statements of Cash Flows

Year Ended June 30, 2007

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from and on behalf of patients	\$ 116,598,681	\$ -	\$ 116,598,681
Receipts from other operations	3,802,556	-	3,802,556
Rent receipts	2,395,098	-	2,395,098
Payments to suppliers and contractors	(44,828,602)	-	(44,828,602)
Payments to employees	(66,425,540)	-	(66,425,540)
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,542,193	-	11,542,193
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Contributions from others	6,240	-	6,240
Contributions received from Williamson County	1,769,700	-	1,769,700
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	1,775,940	-	1,775,940
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital expenditures, net	(14,788,608)	-	(14,788,608)
Principal paid on bonds and notes payable	(4,804,355)	-	(4,804,355)
Proceeds from note payable	768,073	-	768,073
Repayment of obligations under capital leases	(582,821)	-	(582,821)
Interest paid on capital debt	(2,405,073)	-	(2,405,073)
Contributions to the Foundation	-	220,772	220,772
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCIAL ACTIVITIES	(21,812,784)	220,772	(21,592,012)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net increase in other long-term investments	(59,883)	-	(59,883)
Investment income	2,268,719	-	2,268,719
Other, net	936,350	-	936,350
NET CASH PROVIDED BY INVESTING ACTIVITIES	3,145,186	-	3,145,186
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,349,465)	220,772	(5,128,693)
CASH AND CASH EQUIVALENTS, beginning of year	39,193,566	584,129	39,777,695
CASH AND CASH EQUIVALENTS, end of year	\$ 33,844,101	\$ 804,901	\$ 34,649,002

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:			
Cash	\$ 853,533	\$ -	\$ 853,533
Assets limited as to use by Board for capital improvements and bond principal and interest payments	32,956,743	-	32,956,743
Cash assets limited as to use by donors	33,825	804,901	838,726
Cash and cash equivalents	<u>\$ 33,844,101</u>	<u>\$ 804,901</u>	<u>\$ 34,649,002</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating income	\$ 8,278,512	\$ -	\$ 8,278,512
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	7,443,905	-	7,443,905
Estimated provision for bad debts	8,107,167	-	8,107,167
Contributions from Williamson County	(1,769,700)	-	(1,769,700)
Increase (decrease) in cash due to changes in:			
Patient accounts receivable, net	(10,451,760)	-	(10,451,760)
Other receivables	(109,845)	-	(109,845)
Inventories	141,566	-	141,566
Prepaid expenses	(6,188)	-	(6,188)
Accounts payable	182,859	-	182,859
Accrued payroll, compensated absences and payroll related liabilities	271,514	-	271,514
Accrued expenses and other liabilities	(329,628)	-	(329,628)
Estimated amounts due to third-party payors	(216,209)	-	(216,209)
Total adjustments	<u>3,263,681</u>	<u>-</u>	<u>3,263,681</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 11,542,193</u>	<u>\$ -</u>	<u>\$ 11,542,193</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:			
Construction related accounts payable	<u>\$ 2,583,439</u>	<u>\$ -</u>	<u>\$ 2,583,439</u>

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements

Years Ended June 30, 2008 and 2007

NOTE A--REPORTING ENTITY

Primary Enterprise and Component Unit: Williamson County Hospital District (the District) operates under the name of Williamson Medical Center (the Medical Center) and is a general short-term acute care hospital organized as a political subdivision of Williamson County, Tennessee (the County). The Medical Center constitutes a component unit of the County, which is considered the primary government unit. The County Commission adopted a resolution in 1992, in conjunction with acquiring title to the property and equipment of the District, giving the District complete authority and responsibility to manage and operate the Medical Center as provided in Chapter 107 of the Private Act of 1957 passed by the Tennessee legislature. These combined financial statements include the activities of the Medical Center, as well as those of the Williamson Medical Center Foundation (the Foundation) which was established in 2003 and which is a discretely presented component unit in the accompanying combined financial statements. The County is financially accountable as it appoints a voting majority of the District's Board of Trustees and the full faith and credit of the County is pledged for payment of principal and interest on the outstanding hospital revenue and tax bonds.

The primary mission of the Medical Center is to provide inpatient and outpatient healthcare services to the citizens of Williamson County and surrounding areas. The Medical Center also provides ambulance services in Williamson County.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board and predecessor standard setting organizations, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents: The Medical Center considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of amounts maintained in bank deposits and overnight repurchase agreements which are insured by the Federal Deposit Insurance Corporation or are otherwise collateralized. The fair value approximates cost due to the nature of the assets.

Inventories: Inventories consist principally of medical and pharmaceutical supplies and are stated at the lower of cost (first-in, first-out method) or fair market value.

Assets Limited as to Use: Assets limited as to use include cash and investments designated by the Board of Trustees for future capital improvements and debt repayment, over which the Board

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

retains control and may at its discretion use for other purposes; cash and investments from County bond proceeds to be used for capital improvements; and restricted cash from donors through the Foundation. Investments are reported at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Property and Equipment: Property and equipment is stated on the basis of cost. Depreciation is computed by the straight-line method over the estimated useful life of the asset, generally 40 years for buildings, 10 to 25 years for land improvements, 5 to 20 years for fixed equipment and 3 to 20 years for major moveable equipment. Assets under capital leases are included in property and equipment and the related amortization and accumulated amortization is included in depreciation expense and the allowance for depreciation, respectively. The Medical Center reviews the carrying values of long-lived assets if facts and circumstances indicate that recoverability may have been impaired. Costs of maintenance and repairs are expensed as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Investment in Joint Ventures: Investment in joint ventures are accounted for under the equity method of accounting and the Medical Center recognizes its share in the results of the underlying activities in the ventures.

Bond Issuance Costs: Costs incurred in issuing the revenue bonds are being amortized over the term of the related bond issues using the straight-line method.

Accrual for Compensated Absences: The Medical Center recognizes an expense and accrues a liability for compensated future employee absences in the period in which employees' rights to such compensated absences are earned. Compensated absences consist of paid days off including holiday, vacation, sick and bereavement days to qualifying employees.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on an accrual basis in the period in which services are provided at the estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Current operations are charged with an estimated provision for bad debts based upon management's evaluation of collectibility. Such evaluation includes historical experience, aging of the receivables and other factors which affect the collectibility of the receivables. The estimated provision for bad debts is reported as a reduction in net patient service revenue.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

The Medical Center's policy does not require collateral or other security for patient accounts receivable. The Medical Center routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies such as those related to Medicare, TennCare, and various managed care and commercial insurance carriers.

Net Assets: Net assets of the Medical Center are classified in three components. *Net assets invested in capital assets, net of related debt* 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 net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts related to County contributions and bond indebtedness restricted for specific purposes. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets, net of related debt* or *restricted*.

Operating Revenues and Expenses: The Medical Center's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services – the Medical Center's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Charity Care: The Medical Center accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Medical Center. In assessing a patient's inability to pay, the Medical Center utilizes generally recognized poverty income levels. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, charges related to charity care are not included in net patient service revenue. In addition to these charity care services, the Medical Center provides a number of other services to benefit the underprivileged patients for which little or no payment is received, including providing services to TennCare and state indigent patients and providing various public health education, health evaluation and screening programs.

Contributed Resources: The Medical Center receives grants from the County as well as from individuals and private organizations through the Foundation. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for specific operating purposes are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported as other increases in net assets.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes: The Medical Center is classified as an organization exempt from federal income taxes as it is a political subdivision of Williamson County. The Foundation is classified as an organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying combined financial statements.

Use of Estimates: The preparation of combined 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 combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Reclassifications: Certain reclassifications have been made to 2007 amounts to be consistent with 2008 classifications.

NOTE C--NET PATIENT SERVICE REVENUE AND PATIENT ACCOUNTS RECEIVABLE

A significant portion of the amount of services provided by the Medical Center are to patients whose bills are paid by third-party payors such as Medicare, TennCare and private insurance carriers.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the combined statements of revenues, expenses and changes in net assets is as follows:

	<i>Year Ended June 30,</i>	
	<i>2008</i>	<i>2007</i>
Gross patient service charges	\$ 321,264,347	\$ 272,233,430
Less: Medicare contractual adjustments	(80,371,107)	(65,785,729)
TennCare contractual adjustments	(16,631,364)	(14,115,193)
Other contractual adjustments	(79,061,153)	(62,651,925)
Bad debt	(9,488,582)	(8,107,167)
Charity care	(3,268,299)	(2,052,894)
	<u>(188,820,505)</u>	<u>(152,712,908)</u>
Net patient service revenue	<u>\$ 132,443,842</u>	<u>\$ 119,520,522</u>

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE C--NET PATIENT SERVICE REVENUE AND PATIENT ACCOUNTS RECEIVABLE
- Continued

Net patient accounts receivable consists of the following:

	<i>Year Ended June 30,</i>	
	<i>2008</i>	<i>2007</i>
Insurance carriers under commercial plans	\$ 9,738,747	\$ 7,374,989
Managed care plans	3,721,125	3,159,799
Medicare	5,603,641	3,836,498
TennCare	429,381	410,859
Patients, including self-insured	13,129,131	13,727,866
	<u>32,622,025</u>	<u>28,510,011</u>
Less: estimated allowance for uncollectible accounts	(6,657,101)	(7,791,742)
	<u>\$ 25,964,924</u>	<u>\$ 20,718,269</u>

NOTE D--THIRD-PARTY PAYOR AGREEMENTS

The Medical Center renders services to patients under contractual arrangements with the Medicare and Medicaid programs. Effective January 1, 1994, the Medicaid program in Tennessee was replaced with TennCare, a managed care program designed to cover previous Medicaid eligible enrollees as well as other previously uninsured and uninsurable participants.

Amounts earned under these contractual arrangements are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. In the opinion of management, adequate provision has been made for any adjustments which may result from such reviews. In addition, participation in these programs subjects the Medical Center to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the programs.

The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnostic related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized.

The Medicare program reimburses for outpatient services under a prospective method utilizing an ambulatory payment classification system which classifies outpatient services based upon medical procedures and diagnosis codes.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE D--THIRD-PARTY PAYOR AGREEMENTS - Continued

The Medical Center contracts with various managed care organizations under the TennCare program. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts.

Net patient service revenue related to Medicare and TennCare was approximately \$42,887,000 and \$1,798,000, respectively, in 2008 and approximately \$36,162,000 and \$2,014,000, respectively, in 2007.

The Medical Center has also entered into reimbursement agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, per diem rates, case rates and discounts from established charges.

NOTE E--ASSETS LIMITED AS TO USE

Assets limited as to use consist of the following:

	<i>June 30,</i>	
	<u>2008</u>	<u>2007</u>
By Board for capital improvements:		
Cash	\$ 30,609,482	\$ 30,193,025
By Board for bond principal and interest payments:		
Cash	2,654,394	2,763,718
By donors:		
Cash	817,415	838,726
ASSETS LIMITED AS TO USE	<u>\$ 34,081,291</u>	<u>\$ 33,795,469</u>

Balances consist of bank deposits at June 30, 2008 and 2007. Amounts are classified as noncurrent assets to the extent they are not expected to be used to satisfy current obligations.

Amounts classified as current assets will be used to make bond principal and interest payments and to pay construction related accounts payable.

All cash assets limited as to use at June 30, 2008 and 2007 are categorized as investments insured by the Federal Deposit Insurance Corporation, registered or otherwise collateralized by the financial institution through the State of Tennessee Collateral Bank Pool. See Note N for additional information related to the Medical Center's risks with respect to its investments.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE F--PROPERTY AND EQUIPMENT

A summary of property and equipment and schedule of activity is as follows:

	<i>Balance at June 30, 2007</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance at June 30, 2008</i>
Land	\$ 6,513,813	\$ -	\$ -	\$ 6,513,813
Land improvements	2,186,668	39,850	-	2,226,518
Building and fixed equipment	99,745,081	6,834,634	(13,449)	106,566,266
Equipment	51,464,414	5,181,394	(961,939)	55,683,869
Equipment under capitalized leases	8,564,194	99,995	-	8,664,189
	168,474,170	12,155,873	(975,388)	179,654,655
Less: allowance for depreciation and amortization:				
Land improvements	1,568,706	132,700	-	1,701,406
Building and fixed equipment	20,958,929	2,918,912	(5,045)	23,872,796
Equipment	33,939,709	4,963,727	(944,687)	37,958,749
Equipment under capitalized leases	5,952,603	331,719	-	6,284,322
Total accumulated depreciation and amortization	62,419,947	8,347,058	(949,732)	69,817,273
	106,054,223	3,808,815	(25,656)	109,837,382
Construction in progress, net	2,807,820	3,718,307	-	6,526,127
	<u>\$ 108,862,043</u>	<u>\$ 7,527,122</u>	<u>\$ (25,656)</u>	<u>\$ 116,363,509</u>

	<i>Balance at June 30, 2006</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance at June 30, 2007</i>
Land	\$ 6,172,518	\$ 341,295	\$ -	\$ 6,513,813
Land improvements	2,186,668	-	-	2,186,668
Building and fixed equipment	88,706,826	11,277,405	(239,150)	99,745,081
Equipment	43,287,727	8,266,112	(89,425)	51,464,414
Equipment under capitalized leases	8,564,194	-	-	8,564,194
	148,917,933	19,884,812	(328,575)	168,474,170
Less: allowance for depreciation and amortization:				
Land improvements	1,435,538	133,168	-	1,568,706

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE F--PROPERTY AND EQUIPMENT - Continued

	<i>Balance at June 30, 2006</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance at June 30, 2007</i>
Building and fixed equipment	18,704,962	2,441,871	(187,904)	20,958,929
Equipment	29,489,557	4,528,044	(77,892)	33,939,709
Equipment under capitalized leases	5,637,551	315,052	-	5,952,603
Total accumulated depreciation and amortization	55,267,608	7,418,135	(265,796)	62,419,947
	93,650,325	12,466,677	(62,779)	106,054,223
Construction in progress, net	7,230,098	(4,422,278)	-	2,807,820
	<u>\$ 100,880,423</u>	<u>\$ 8,044,399</u>	<u>\$ (62,779)</u>	<u>\$ 108,862,043</u>

Construction in progress at June 30, 2008 consists primarily of construction on a new parking garage, as well as continuing construction on the Outpatient Imaging Center and a surgery suite. Estimated costs to complete these projects amount to approximately \$7,300,000 at June 30, 2008.

NOTE G--INVESTMENT IN JOINT VENTURES

During 2006, the Medical Center entered into a joint venture with physicians to own and operate Williamson Surgery Center, LLC (the Surgery Center) which began operations during the year ended June 30, 2006. The joint venture is governed equally by the Medical Center and by the physicians. The Medical Center transferred certain property and equipment to the joint venture in 2006 as a part of its initial investment of \$1,850,000. The Medical Center provides various administrative and other services and personnel to the Surgery Center. Other operating revenue for the years ended June 30, 2008 and 2007 includes \$2,322,278 and \$2,920,870 for these employees and services, and other receivables at June 30, 2008 and 2007 includes \$1,545,408 and \$1,619,057 due from the Surgery Center. During 2007, the amount due from the Surgery Center was restructured as a note receivable with monthly payments of \$11,253, including interest at 5%, through 2022. The Medical Center also recognized \$102,852 and \$454,643 as its equity in the loss of the Surgery Center during the years ended June 30, 2008 and 2007, respectively, based on the Medical Center's interest of approximately 74%. Condensed financial information for the Surgery Center as of and for the years ended June 30, 2008 and 2007 is as follows:

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE G--INVESTMENT IN JOINT VENTURES - Continued

	<u>2008</u>	<u>2007</u>
Assets	\$ 2,162,455	\$ 2,529,089
Liabilities	\$ 1,890,116	\$ 2,119,626
Member's equity	272,339	409,463
	<u>\$ 2,162,455</u>	<u>\$ 2,529,089</u>
Net loss for the year	<u>\$ 137,136</u>	<u>\$ 622,798</u>

Liabilities at June 30, 2008 and 2007 include \$300,000 and \$500,000, respectively, outstanding on a \$1,500,000 line of credit.

In December 2007, the Medical Center entered into a joint venture with Saint Thomas Network to own and operate Williamson Saint Thomas Community Health, LLC (WSTCH) which began operations during the year ended June 30, 2008. The joint venture is owned equally by the Medical Center and Saint Thomas Network. The Medical Center and Saint Thomas Network have agreed to divide the net income/loss of WSTCH based on an allocation of 80% and 20%, respectively. The Medical Center contributed \$40,000 to the joint venture in 2008 as its initial investment. The Medical Center provides administrative and other services and personnel to WSTCH. Other operating revenue for the year ended June 30, 2008 includes \$123,593 for these employees and services.

The Medical Center also has an investment in Shared Hospital Services, Inc. (S.H.S.) which provides laundry and linen services. This investment is in a joint venture in which the Medical Center owns approximately 6.6% and 6.8% at June 30, 2008 and 2007, respectively. The Medical Center's equity in S.H.S. was approximately \$698,900 and \$750,700 at June 30, 2008 and 2007, respectively. Equity earnings are distributed based upon tons of laundry processed by S.H.S.

The Medical Center paid S.H.S. approximately \$657,000 and \$710,000 for laundry services for 2008 and 2007, respectively.

NOTE H--WILLIAMSON COUNTY AMBULANCE SERVICE

Pursuant to terms of an agreement with the County, which has been and may continue to be renewed annually upon agreement by both parties, the Medical Center controls and operates the Williamson County Ambulance Service. In accordance with this agreement, the County made

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE H--WILLIAMSON COUNTY AMBULANCE SERVICE - Continued

unrestricted donations to the Medical Center of \$1,845,792 and \$1,769,700 in 2008 and 2007, respectively, which are included in other revenue in the accompanying statements of revenues, expenses and changes in net assets. The agreement also provides for the Medical Center to return all related assets (as defined) of the ambulance service to the County at the end of the contract period. The net book value of assets related to the ambulance service was approximately \$1,517,000 and \$953,000 at June 30, 2008 and 2007, respectively.

NOTE I--BONDS AND NOTES PAYABLE

A schedule of changes in the Medical Center's bonds and notes payable is as follows:

	<i>Balance at June 30, 2007</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2008</i>	<i>Amounts Due Within One Year</i>
Hospital Revenue and Tax Bonds Series 2004B	\$ 14,000,000	\$ -	\$ (575,000)	\$ 13,425,000	\$ 600,000
Hospital Revenue and Tax Bonds Series 2004A	13,445,000	-	(565,000)	12,880,000	580,000
Hospital Revenue and Tax Refunding Bonds, Series 1997	8,910,000	-	(8,910,000)	-	-
Hospital Revenue and Tax Refunding Bonds, Series 2008	-	7,100,000	-	7,100,000	1,690,000
4.43% Note payable to bank (LIBOR + 1.75%)	8,833,333	-	(500,000)	8,333,333	500,000
4.75% Note payable to bank	285,289	-	(285,289)	-	-
4.78% Equipment loan	688,063	-	(247,814)	440,249	259,935
2.94% Note payable to bank	198,616	1,457	(200,073)	-	-

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE I--BONDS AND NOTES PAYABLE - Continued

	<i>Balance at June 30, 2007</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2008</i>	<i>Amounts Due Within One Year</i>
4.31% Note payable to bank	-	4,727,852	-	4,727,852	360,000
3.11% Note payable to bank (LIBOR + .65%)	-	742,231	(41,235)	700,996	247,410
	<u>\$ 46,360,301</u>	<u>\$ 12,571,540</u>	<u>\$ (11,324,411)</u>	<u>\$ 47,607,430</u>	<u>\$ 4,237,345</u>
	<i>Balance at June 30, 2006</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2007</i>	<i>Amounts Due Within One Year</i>
Hospital Revenue and Tax Bonds Series 2004B	\$ 14,560,000	\$ -	\$ (560,000)	\$ 14,000,000	\$ 575,000
Hospital Revenue and Tax Bonds Series 2004A	13,995,000	-	(550,000)	13,445,000	565,000
Hospital Revenue and Tax Refunding Bonds, Series 1997	10,455,000	-	(1,545,000)	8,910,000	1,610,000
7.25% Note payable to bank (LIBOR + 1.75%)	9,333,333	-	(500,000)	8,833,333	500,000
4.75% Note payable to bank	1,392,638	-	(1,107,349)	285,289	285,289
4.78% Note payable to bank	-	768,073	(80,010)	688,063	247,814
2.94% Note payable to bank	660,612	-	(461,996)	198,616	198,616
	<u>\$ 50,396,583</u>	<u>\$ 768,073</u>	<u>\$ (4,804,355)</u>	<u>\$ 46,360,301</u>	<u>\$ 3,981,719</u>

On December 1, 2004, the County issued \$15,110,000 in Hospital Revenue and Tax Bonds, Series 2004B (the Series 2004B Bonds) for the purpose of constructing improvements and renovations to and equipping of the Medical Center. Specifically, the 2004B Bonds were used for a multi-phase facility expansion and renovation project, which extended over several years

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE I--BONDS AND NOTES PAYABLE - Continued

and was substantially completed in 2007. The remaining Series 2004B Bonds bear interest rates ranging from 3.0% to 4.375% and are due through May 1, 2025.

The Series 2004B Bonds maturing on or after May 1, 2016 are subject to redemption at the option of the County on or after May 1, 2015 at 100% of par value.

On June 1, 2004, the County issued \$15,110,000 in Hospital Revenue and Tax Bonds, Series 2004A (the Series 2004A Bonds) for the purpose of constructing improvements and renovations to and equipping of the Medical Center. Specifically, the 2004A Bonds were also used for the multi-phase facility expansion and renovation project. The remaining Series 2004A Bonds bear interest at rates ranging from 3.75% to 4.875% and are due through May 1, 2024.

The Series 2004A Bonds maturing on or after May 1, 2015 are subject to redemption at the option of the County on or after May 1, 2014 at 100% of par value.

The Hospital Revenue and Tax Refunding Bonds, Series 1997 (the Series 1997 Bonds) were issued for the purpose of advance refunding a portion of the previously outstanding Hospital Revenue and Tax Bonds, Series 1992 (the Series 1992 Bonds), which had been used for the purpose of acquiring Medical Center facilities.

The Series 1997 Bonds maturing on or after May 1, 2008 were subject to redemption at the option of the County on or after May 1, 2007 as a whole at any time or in part from time to time on any interest payment date at 101% of par value on May 1, 2007 through April 30, 2008 and at 100% of par value on May 1, 2008 and thereafter. The Series 1997 Bonds were redeemed as a whole on February 29, 2008, in conjunction with the issuance of the Series 2008 Bonds discussed below. There was no significant gain or loss related to this transaction.

On February 28, 2008, the County issued \$7,100,000 in Hospital Revenue and Tax Refunding Bonds, Series 2008 (the Series 2008 Bonds) for the purpose of refunding the Series 1997 Bonds. The Series 2008 Bonds bear interest at rates ranging from 3.5% to 5.0% and are due through May 1, 2012. The Series 2008 Bonds are not subject to optional redemption prior to maturity.

The Series 2004A, Series 2004B, and Series 2008 Bonds are collateralized by a pledge of the net revenues of the Medical Center and security interests in accounts receivable and certain other assets. In the event of a deficiency, the Bonds are payable from unlimited ad valorem taxes levied on all taxable property within the County. The trust indentures related to the Bonds contain certain covenants and restrictions, involving the issuance of additional debt and income available for debt service, with which the Medical Center was in compliance at June 30, 2008.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE I--BONDS AND NOTES PAYABLE - Continued

The Medical Center also issues notes payable to finance certain property and equipment additions. The 4.43% note payable to bank represents amounts drawn under a \$10,000,000 line of credit, which converted to a term loan on April 1, 2005, with monthly principal and interest payments based on a 20 year amortization, but maturing in April 2015. This loan bears interest at a variable rate based on the bank's index rate (LIBOR) plus 1.75% and is secured by a subordinated pledge of the Medical Center's net revenues and accounts receivable. The 4.78% equipment loan is payable in monthly amounts of principal and interest of \$22,946 through February 2010 and is secured by equipment. The 4.75% note payable to bank was payable in monthly amounts of principal and interest of \$95,854 and was paid in full in September 2007. The 2.94% note payable to bank was payable in monthly principal and interest amounts of \$39,723 and was paid in full in November 2007. The 3.11% note payable to bank bears interest at a variable rate based on the bank's index rate (LIBOR) plus .65% and is secured by equipment. The 4.31% note payable to bank represents amounts drawn thus far on a \$7,500,000 construction loan with monthly interest only payments until November 1, 2008. On December 1, 2008, the note payable will convert to a term loan payable in monthly amounts of principal and interest based on a 15 year amortization, but maturing in November 2013.

The debt service requirements at June 30, 2008 related to bonds and notes payable are as follows:

<i>Year Ending June 30,</i>	<i>Principal Maturities or Sinking Fund Requirements</i>		<i>Interest</i>
2009	\$	4,237,345	\$ 1,967,793
2010		4,202,914	1,811,387
2011		4,066,365	1,669,149
2012		3,970,190	1,526,343
2013		5,267,282	1,349,074
2014-2018		13,363,334	4,270,459
2019-2023		9,340,000	2,027,819
2024-2025		3,160,000	189,737
Total	\$	47,607,430	\$ 14,811,761

Approximately \$48,000 in interest expense was capitalized as part of the cost of construction projects during 2008. No significant amounts of interest were capitalized during 2007.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE J--LEASES

The Medical Center leases equipment and office space under capital and operating lease agreements. Future minimum lease payments under capital leases and noncancellable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2008 are as follows:

<i>Year Ending June 30,</i>	<i>Capital Leases</i>	<i>Operating Leases</i>
2009	\$ 37,534	\$ 2,667,756
2010	37,534	2,474,092
2011	6,256	678,930
2012	-	620,878
2013	-	399,466
2014	-	264,614
Total future minimum lease payments	81,324	<u>\$ 7,105,736</u>
Less amounts representing interest of 7.88%	(6,786)	
Present value of net minimum lease payments	<u>\$ 74,538</u>	

A schedule of changes in the Medical Center's capital leases is as follows:

<i>Balance at June 30, 2007</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2008</i>	<i>Amounts Due Within One Year</i>
\$ -	\$ 99,995	\$ (25,457)	\$ 74,538	\$ 32,831

<i>Balance at June 30, 2006</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2007</i>	<i>Amounts Due Within One Year</i>
\$ 582,821	\$ -	\$ (582,821)	\$ -	\$ -

The Medical Center generates rental income primarily from operating leases of three medical office buildings. Rental revenue was \$2,682,467 and \$2,395,098 in 2008 and 2007, respectively, and is included in other revenue.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE J--LEASES - Continued

Future minimum rental revenue under noncancellable leases, including a lease with the Surgery Center currently for \$59,955 per month through September 2015, at June 30, 2008 is as follows:

<u>Year Ending June 30,</u>	
2009	\$ 2,171,860
2010	1,853,520
2011	1,333,973
2012	1,280,368
2013	1,213,696
2014-2016	<u>1,969,499</u>
Total	<u>\$ 9,822,916</u>

Future minimum rental payments generally include minor annual increases for inflation. Rental income in excess of rent expense was \$870,082 and \$551,212 for 2008 and 2007, respectively.

NOTE K--CAPITAL CONTRIBUTIONS

During 2003, the County contributed \$20,000,000 in funds towards the Medical Center's facility expansion and renovation project pursuant to a resolution of the County Commission. These funds were raised from a County bond issue which will be repaid, along with interest, from County revenues.

Other capital contributions for 2008 and 2007 include amounts related primarily to the Foundation.

NOTE L--EMPLOYEES' RETIREMENT PLAN

The Medical Center participates in a tax-sheltered annuity program (the Plan) for substantially all of its employees that have one or more years of service, more than one thousand scheduled hours, and have attained the age of 21. Benefits expense includes approximately \$1,992,000 and \$1,940,000 in 2008 and 2007, respectively, related to the Medical Center's share of expenses for contributions and service charges on tax-sheltered annuities for covered employees. Currently, the Medical Center's contribution percentage is 5% of covered wages for non-management employees and 9% for management employees. Employees may make voluntary contributions so long as the total amount contributed by the employee does not exceed 25% of the employee's wages or maximum amounts as provided by law. The Plan's investments at June 30, 2008 and 2007 consist of various mutual fund and fixed income investments.

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE M--OTHER RECEIVABLES

Other current and long-term receivables at June 30, 2008 and 2007 include \$429,930 and \$611,117, respectively, in receivables from certain physicians which were made as part of the Medical Center's recruitment program to attract physicians to the Medical Center's service area. Under terms of the related agreements, such receivables will be forgiven over a period of time, generally over three years, as long as the physician continues to practice in the area. The Medical Center is amortizing these loans over the physicians' service commitments.

NOTE N--COMMITMENTS AND CONTINGENCIES

Medical malpractice liability is limited under provisions of the Tennessee Governmental Tort Liability Act (T.C.A. 29-20-403, et seq.), which removed tort liability from governmental entities which, in the opinion of counsel for the Medical Center, includes the Medical Center. In addition to requiring claims to be made in conformance with this Act, special provisions include, but are not limited to, special notice of requirements imposed upon the claimant, a one year statute of limitations, and a provision requiring that the governmental entity purchase insurance or be self-insured within certain limits. This Act also prohibits a judgment or award exceeding the minimum amounts of insurance coverage set out in the Act (\$300,000 for bodily injury or death of any one person and \$700,000 in the aggregate for all persons in any one accident, occurrence or act) or the amount of insurance purchased by the governmental entity.

The Medical Center also maintains commercial insurance on a claims-made basis for medical malpractice liabilities. Insurance coverages are \$1,000,000 per claim and \$3,000,000 in the aggregate annually with a deductible of \$100,000 per claim. In addition, the Medical Center maintains a \$3,000,000 annual aggregate excess liability policy. Management intends to maintain such coverages in the future. During the past four fiscal years, no settlements of malpractice claims have exceeded insurance coverage limits.

There are known incidents occurring through June 30, 2008 that have resulted in the assertion of claims, although other claims may be asserted, arising from services provided to patients in the past. Management of the Medical Center is of the opinion that such liability, if any, related to these asserted claims will not have a material effect on the Medical Center's financial position. No amounts have been accrued for potential losses related to unreported incidents, or reported incidents which have not yet resulted in asserted claims as the Medical Center is not able to estimate such amounts.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse, and, most recently under the

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE N--COMMITMENTS AND CONTINGENCIES - Continued

provisions of the Health Insurance Portability and Accountability Act of 1996, matters related to patient records, privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Medical Center is self-insured for medical and other healthcare benefits provided to its employees and their families. The Medical Center maintains reinsurance through a commercial excess coverage policy which covers annual individual employee claims paid in excess of \$175,000 for the plan year. Contributions by the Medical Center and participating employees are based on actual claims experience. A provision for estimated incurred but not reported claims has been provided in the accompanying combined financial statements. Total expenses under this program amounted to approximately \$8,072,000 and \$7,722,000 for the years ended June 30, 2008 and 2007, respectively.

In June 2007, the Medical Center entered into a contract for the purchase of real estate, whereby, the Medical Center has agreed to purchase space in a medical office building at an estimated total cost of \$2,061,300. The space will be used to house an outpatient imaging center. The contract required the Medical Center to deposit earnest money at the time the contract was executed. The earnest money is to subsequently be applied to the purchase price. As of June 30, 2008, this facility was still under construction and not yet available for use by the Medical Center. Once completed, the Medical Center will be required to purchase the facility based on a purchase price to be determined based on information documented in the previously stated contract for purchase of real estate.

The Medical Center is exposed to risks related to its cash and investments, a portion of which is included in assets limited as to use, although certain risks such as credit risk are mitigated due to the Medical Center's practice of maintaining investments primarily in cash and cash equivalents. The Medical Center's investment policy includes certificates of deposit, bank demand and savings accounts, and investment vehicles of the United States government. The Medical Center is subject to investment rate risk, the risk that changes in interest rates will adversely affect the fair value of an investment; however, the Medical Center's cash and investments are short-term in nature. The Medical Center's investment policy does not specifically address custodial credit risk, the risk that in the event of failure of a counterparty to a transaction, the Medical Center will not be able to recover the value of the investment or any collateral securities that are in the possession of an outside party, or concentration of credit risk, the risk that the amount of

**WILLIAMSON COUNTY HOSPITAL DISTRICT
(WILLIAMSON MEDICAL CENTER)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2008 and 2007

NOTE N--COMMITMENTS AND CONTINGENCIES - Continued

investments the Medical Center has with any one issuer exceeds 5% of its total investment. Substantially all of the Medical Center's cash and equivalents are with one financial institution.

NOTE O--FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Medical Center in estimating fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported in the combined balance sheets approximates their fair value.

Assets limited as to use: These assets consist primarily of cash and cash equivalents. The carrying amount reported in the combined balance sheets is fair value.

Patient accounts and other receivables: The carrying amount reported in the combined balance sheets approximates its fair value.

Accounts payable, accrued expenses and other liabilities: The carrying amount reported in the combined balance sheets approximates its fair value.

Accrued payroll, compensated absences and payroll related liabilities: The carrying amount reported in the combined balance sheets approximates its fair value.

Estimated amounts due to third-party payors: The carrying amount reported in the combined balance sheets approximates its fair value.

Long-term debt: The fair value of the Medical Center's long-term debt is estimated based on the Medical Center's current incremental borrowing rates for similar types of borrowing arrangements. Based on the analyses, the fair value of the Series 2004A, Series 2004B, and Series 2008 Bonds and other long-term debt at June 30, 2008 approximates carrying values.

Other Information



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INDEPENDENT AUDITOR'S 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
Williamson County Hospital District:

We have audited the financial statements of the business-type activities and the discretely presented component unit of Williamson County Hospital District (Williamson Medical Center) (the Medical Center) as of and for the year ended June 30, 2008, which collectively comprise the Medical Center's basic financial statements and have issued our report thereon dated September 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Medical Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Medical Center's financial statements that is more than inconsequential will not be prevented or detected by the Medical Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Medical Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we noted other matters involving the internal control over financial reporting which we have reported to the Board of Trustees of the Medical Center in a separate letter dated September 12, 2008.

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 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*.

This report is intended solely for the information and use of the Board of Trustees, Medical Center management and the State of Tennessee, Comptroller of the Treasury, Department of Audit, and is not intended to be, and should not be, used by anyone other than these specified parties.

Penning Yoakley & Associates, P.C.

Knoxville, Tennessee
September 12, 2008



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To the Board of Trustees of
Williamson County Hospital District:

In planning and performing our audit of the combined financial statements of Williamson County Hospital District (Williamson Medical Center) (the Medical Center) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Medical Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Medical Center's combined financial statements that is more than inconsequential will not be prevented or detected by the Medical Center's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the combined financial statements will not be prevented or detected by the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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

However, we did identify certain opportunities for strengthening internal control which we have outlined below.

PATIENT ACCOUNTS RECEIVABLE AND RELATED ALLOWANCE FOR CONTRACTUAL ADJUSTMENTS AND UNCOLLECTIBLE ACCOUNTS

During the course of our audit, we observed several trends related to patient accounts receivable and the related allowance for contractual adjustments and uncollectible accounts, as discussed below:

- Gross patient accounts receivable have increased 21.55% from June 30, 2007 to June 30, 2008, compared to an increase in gross patient charges of 18.01% for the 2008 fiscal year compared to the 2007 fiscal year. In addition, we noted that unbilled patient accounts receivable increased 40.48% from June 30, 2007 to June 30, 2008.
- Self-pay patient accounts receivable represent 23.3% of total billed patient accounts receivable as of June 30, 2008. Bad debt write-offs increased during 2008 as a result of the new policy with respect to the timing of write-offs when accounts are turned over to collection agencies.
- The relationship between the deduction percentage (including deductions for contractual adjustments, bad debt expense, and charity care) and the allowance percentage (including allowances for contractual adjustments and uncollectible accounts), is a good indicator of whether reserves are sufficient to provide for estimated write-offs inherent within the gross patient accounts receivable. The total deduction percentage (56.1%) as of June 30, 2007 exceeded the total allowance percentage (55.0%) as of June 30, 2007. The total deduction percentage (58.8%) as of June 30, 2008 exceeded the total allowance percentage (54.0%) as of June 30, 2008. Historically, the Medical Center's allowance percentage has been equal to, or slightly in excess of, the deduction percentage. This trend has reversed in 2007 and 2008.
- The ratio of "Days of Net Revenue in Net Accounts Receivable" has increased from 58.9 days as of June 30, 2007, to 66.0 days as of June 30, 2008.
- Net patient accounts receivable as a percentage of total assets has increased from 12.2% at June 30, 2007 to 14.1% at June 30, 2008.

We recommend that management monitor the trends noted above to determine whether additional reserves may be necessary for contractual adjustments and/or uncollectible accounts in future periods.

ACCOUNTS PAYABLE AND OTHER BALANCE SHEET RECONCILIATIONS

During our audit we were informed by the Medical Center's accounting personnel that, due to an illness of one of the members of the Medical Center's accounting department, the system report of accounts payable was not generated as of June 30, 2008. This system report would serve as the primary means of supporting the accounts payable general ledger balance as of June 30, 2008. We were able to perform alternate procedures to test the reasonableness of the accounts

payable balance as of June 30, 2008; however, in the future we recommend that the Medical Center's accounting department have a plan in place to ensure that all system reports are generated to support the year-end and/or month-end general ledger balances during the closing process in the event that one or more of the accounting personnel are out sick for an extended period of time. In addition, through our discussions with accounting personnel regarding internal controls over financial reporting we understand that, for several balance sheet accounts, reconciliations occur but documentation of the reconciliation is not retained. We recommend that all balance sheet accounts be reconciled on a monthly basis and that documentation evidencing the preparation and secondary review of the reconciliation be retained. This documentation will serve as evidence of the Medical Center's internal control structure and will also serve as key audit evidence.

INVESTMENT IN JOINT VENTURES

As of June 30, 2008, the Medical Center has investments in two joint ventures as defined below:

- Williamson Surgery Center, LLC (WSC)
- Williamson Saint Thomas Community Health, LLC (WSTCH)

WSC began operations in 2006, and the Medical Center has an interest of approximately 75% in WSC as of June 30, 2008. WSTCH began operations in 2008, and the Medical Center has an interest of 50% in WSTCH as of June 30, 2008; moreover, the Medical Center receives an allocation of 80% of profits and losses from WSTCH. It has been the practice of the Medical Center to only adjust the investment in the WSC joint venture for the profits/losses once a year for the audited combined financial statements. The Medical Center has not adjusted the investment in the WSTCH joint venture for the current year losses as of June 30, 2008. The losses from the WSTCH joint venture were immaterial to the Medical Center's combined financial statements as a whole. However, we recommend that in the future the Medical Center adjust the investment in joint venture accounts on a monthly basis to reflect the allocation of profits/losses from these joint venture investments.

We appreciate the opportunity to have served you on this engagement. We would be pleased to discuss our comments and recommendations further at your convenience.

Pushing Yoakley & Associates, P.C.

Knoxville, Tennessee
September 12, 2008