

Woods Memorial Hospital District & Subsidiary

**Consolidated Financial Statements with
Accompanying Information For the Years
Ended June 30, 2008 and 2007**
with
Independent Auditors' Report

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

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Independent Auditors' Report

Board of Trustees
Woods Memorial Hospital District
Etowah, Tennessee

McMinn County Commission
McMinn County Courthouse
Athens, Tennessee

We have audited the accompanying balance sheets of Woods Memorial Hospital District & Subsidiary (the "District"), a component unit of McMinn County, Tennessee, as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District'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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2008 and 2007, and the changes in 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 District has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with 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.

Richard A. Goldstine • J. Wesley Edmondson • John C. Pannell • Tim Royster • Jenny C. Raines • Michelle Herrell

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements as set forth on pages 3 through 21, taken as a whole. The accompanying financial information included in this report on pages 22 through 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such accompanying information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

HG & A Associates, P.C.

July 6, 2009

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY
BALANCE SHEETS
June 30, 2008 and 2007

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 3,595,559	782,769
Marketable securities	2,043	2,043
Accounts receivable:		
Patients, less allowance for doubtful accounts of \$6,426,900 in 2007	-	3,125,970
Other	-	668,116
Inventory of supplies	-	520,122
Prepaid expenses	-	145,982
Total current assets	<u>3,597,602</u>	<u>5,245,002</u>
 Other assets:		
Board designated - cash:		
Replacement and expansion funds	-	33,055
Development Foundation	216,184	69,886
Deposits	-	35,833
	<u>216,184</u>	<u>138,774</u>
 Capital assets:		
Land	-	368,661
Land improvements	-	535,885
Buildings	-	10,817,192
Leasehold improvements	-	49,043
Fixed equipment	-	2,968,025
Moveable equipment	-	9,085,371
Construction in progress	-	-
	<u>-</u>	<u>23,824,177</u>
Less accumulated depreciation	-	16,147,229
	<u>-</u>	<u>7,676,948</u>
	<u>\$ 3,813,786</u>	<u>13,060,724</u>

The accompanying notes are an integral part of these financial statements.

<u>Liabilities and Net Assets</u>	<u>2008</u>	<u>2007</u>
Current liabilities:		
Current installments of long-term debt and obligations under capitalized leases	\$ -	836,119
Note payable	-	2,420,528
Accounts payable:		
Trade	61,626	1,771,345
McMinn County Government	-	1,281,315
Doctors' Hospital of McMinn County, LLC	237,100	-
Estimated third party settlements - Medicare and Medicaid	280,673	616,655
Development Foundation	-	169,000
Patient credit balances	-	508,515
Accrued expenses - interest	-	14,289
Accrued expenses - other	-	708,385
Deferred revenue	-	24,000
Total current liabilities	<u>579,399</u>	<u>8,350,151</u>
Long-term debt:		
Notes payable	-	219,723
Obligations under capital leases	-	496,254
Total long-term debt, less current installments	<u>-</u>	<u>715,977</u>
Total liabilities	<u>579,399</u>	<u>9,066,128</u>
Net assets:		
Invested in capital assets, net of related debt	-	6,066,088
Designated - Development Foundation	216,184	-
Unrestricted (deficit)	3,018,203	(2,071,492)
	<u>3,234,387</u>	<u>3,994,596</u>
Commitments and contingent liabilities	-	-
	<u>-</u>	<u>-</u>
	<u>\$ 3,813,786</u>	<u>13,060,724</u>

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

STATEMENTS OF REVENUES AND EXPENSES AND

CHANGES IN NET ASSETS

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Net patient service revenue	\$ 10,131,446	22,357,909
Other revenue, net	<u>443,607</u>	<u>2,407,671</u>
Total revenues	<u>10,575,053</u>	<u>24,765,580</u>
Operating expenses:		
Professional care	6,384,387	16,438,546
Dietary	463,083	990,405
Housekeeping	193,218	461,050
Linen services	82,559	193,067
Plant operations and maintenance	329,438	810,018
Administrative	888,270	1,441,312
General and patient accounting	298,704	692,386
Public relations	39,335	104,702
Personnel	35,105	116,735
Unallocated	863,791	2,316,770
Depreciation	286,285	753,003
Home health services	<u>331,970</u>	<u>609,961</u>
Total operating expenses	<u>10,196,145</u>	<u>24,927,955</u>
Operating income (loss)	<u>378,908</u>	<u>(162,375)</u>
Nonoperating revenues (expenses):		
Gifts and memorials	38,179	1,920
Federal and state grants	24,000	15,000
Interest income	60,559	4,950
Loss on sale of assets	(209,145)	-
Interest expense	<u>(52,710)</u>	<u>(241,543)</u>
Net nonoperating revenues (expenses)	<u>(139,117)</u>	<u>(219,673)</u>
Special items:		
Impairment loss on goodwill	<u>-</u>	<u>(141,989)</u>
Income (loss) before operating transfer	239,791	(524,037)
Operating transfer to McMinn County		
Government permanent fund	<u>(1,000,000)</u>	<u>-</u>
Change in net assets	(760,209)	(524,037)
Total net assets, beginning of the year	<u>3,994,596</u>	<u>4,518,633</u>
Total net assets, end of year	<u>\$ 3,234,387</u>	<u>3,994,596</u>

The accompanying notes are an integral part of these financial statements.

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from customers and third-party reimbursements	\$ 11,482,351	24,916,586
Cash payments for goods and services	(5,942,061)	(14,598,461)
Cash payments for employees	<u>(4,218,759)</u>	<u>(11,087,141)</u>
Net cash provided (used) by operating activities	<u>1,321,531</u>	<u>(769,016)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(70,163)	(90,876)
Change in note payable	(2,420,528)	2,296,171
Proceeds from sale of capital assets	6,022,098	-
Principal paid on obligations under capital leases	(80,957)	(170,882)
Interest paid on obligations under capital leases	(11,543)	(29,789)
Principal paid on long-term debt and bonds	(870,432)	(469,439)
Interest paid on long-term debt and bonds	(9,933)	(112,760)
Other interest and late fees paid	<u>(16,945)</u>	<u>(90,519)</u>
Net cash provided by capital and related financing activities	<u>2,541,597</u>	<u>1,331,906</u>
Cash flows provided by investing activities:		
Interest received	<u>60,559</u>	<u>4,950</u>
Cash flows from noncapital financing activities:		
Change in deposits	(35,833)	-
Gifts and memorials received	38,179	1,920
Federal and state grants	-	39,000
Operating transfer to McMinn County Government permanent fund	<u>(1,000,000)</u>	<u>-</u>
Net cash provided (used) by noncapital financing activities	<u>(997,654)</u>	<u>40,920</u>
Net increase in cash and cash equivalents	2,926,033	608,760
Cash and cash equivalents at beginning of year	885,710	276,950
Cash and cash equivalents at end of year	<u>\$ 3,811,743</u>	<u>885,710</u>
Cash and cash equivalents	\$ 3,595,559	782,769
Replacement and expansion funds - board designated	-	33,055
Development Foundation - board designated	<u>216,184</u>	<u>69,886</u>
	<u>\$ 3,811,743</u>	<u>885,710</u>

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY
STATEMENTS OF CASH FLOWS (continued)
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ <u>378,908</u>	<u>(162,375)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization of capital leases	286,285	753,438
Changes in assets and liabilities:		
Accounts receivable	3,794,086	130,537
Due to/from Medicare/Medicaid	335,982	20,469
Inventory	520,122	(95,447)
Prepaid expenses	145,982	(94,262)
Accounts payable	(2,922,934)	(1,241,237)
Patient credit balances	(508,515)	(223,022)
Accrued expenses	<u>(708,385)</u>	<u>142,883</u>
Total adjustments	<u>942,623</u>	<u>(606,641)</u>
Net cash provided (used) by operating activities	\$ <u><u>1,321,531</u></u>	<u><u>(769,016)</u></u>
 Noncash Investing, Capital and Financing Activities:		
Capital lease obligations	\$ <u><u>-</u></u>	<u><u>138,935</u></u>
Capital lease obligations assumed at sale	\$ <u><u>(600,707)</u></u>	<u><u>-</u></u>

The accompanying notes are an integral part of these financial statements.

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements
June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) Nature of Business

The District is a discretely presented component unit of McMinn County, Tennessee, and the financial statements are presented in both the District's separate financial report and in the McMinn County financial report as a full service hospital (Woods Memorial Hospital), a nursing home (McMinn Memorial Nursing Home), and a health services rental building in Etowah, Tennessee with the operations ceasing due to the sale of its operating assets on December 7, 2007. The District is considered a discretely presented component unit of McMinn County, Tennessee, as defined under the criteria set forth in Governmental Accounting Standards Board Statement No. 14 because the County Commissioners of McMinn County appoint the governing board for the District, and the County is obligated to fund any deficits, which may arise from the District's operations. The consolidated financial statements include the District and McMinn County Ambulance Service, Inc. ("AMBSERV"), a not-for-profit organization established to provide ambulance services for the citizens of McMinn County. The financial statements are consolidated due to the District's control of the board of director's of AMBSERV. All material intercompany balances and transactions have been eliminated in consolidation. The District will continue in existence thru the finalization of the agreement to remit the excess proceeds of the sale to McMinn County Government as described in Note 13.

(b) Basis of Accounting

Except for inclusion of the Management's Discussion and Analysis, the District reports its financial activities under the applicable provisions of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Statement 34 established standards for external reporting for all state and local government entities that include a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components described as:

- Invested in capital assets net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgage notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets components as the unspent proceeds.

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements
June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies (continued)

(b) Basis of Accounting (continued)

- Restricted – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The component of net asset consisting of net assets that do not meet the definition “restricted” or “invested in capital assets, net of related debt”.

As an entity being recorded as an enterprise fund for McMinn County, as described above, the District activities are recorded using the accrual basis of accounting, whereby revenues are recognized when they are earned and expenses are recognized when they are incurred. Under Governmental Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply all Financial Accounting Standards Board Statements and interpretations that do not conflict with or contradict GASB pronouncements.

(c) Marketable Equity Securities

The District’s marketable securities consist of equity securities that have a readily determined fair value. Management determines the appropriate classification of its investments at the time of donation or purchase and reevaluates such determination at each balance sheet date.

The District’s investments are reported at fair value, with any unrealized gains reported as revenues and losses reported as expenses. Any realized gains and losses on the marketable securities are determined by specific identification and are charged or credited to current earnings.

(d) Inventories

Inventories, consisting of medical supplies, drugs, and dietary supplies are stated at the lower of cost (first in, first out method) or market.

(e) Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amount from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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 made.

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements
June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies (continued)

(f) Charity Care

The District 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 District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charges foregone at established rates were \$23,412 (\$53,270 in 2007) and the estimated expenses incurred to provide this care was \$11,706 (\$26,860 in 2007).

(g) Capital Assets

Capital assets consisting of property, facilities and equipment are stated at cost. Depreciation is computed principally by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and land improvements	10 - 50
Fixed equipment	5 - 20
Moveable equipment	4 - 20

When assets are retired or otherwise disposed of, the average cost is removed from the asset account and the accumulated depreciation account. Removal cost is charged or credited to the accumulated depreciation account. Interest costs are capitalized on projects based on actual loan charges incurred to finance a specific project. The cost of maintenance and repairs is charged to earnings as incurred; significant renewals and betterments are capitalized. All the capital assets were sold in December 2007.

(h) Income Taxes

The Internal Revenue Service has ruled that the Hospital District qualified as an instrumentality of the state and, as such, is exempt from filing federal income tax returns. The consolidated entity AMBSERV qualifies as tax exempt under Internal Revenue Code Section 501 (i).

(i) Compensated Absences

The Hospital District accrues payroll expense for vested vacation hours, which have not been taken by eligible employees.

(j) Goodwill

Goodwill is the result of the acquisition of the Englewood Clinic. The District determined that the goodwill of \$141,989 had been impaired during 2007 and thus written off in that fiscal year.

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements

June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies (continued)

(k) Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash equivalents.

(l) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) Deposits and Investments

Deposits are carried at cost, which approximates their fair value. At June 30, 2008 the carrying amount of the District's deposits was \$3,811,743 and the bank balances were \$3,880,663. Custodial credit risk for the District's deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As required by state statutes, the District's policy is to require the financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. At June 30, 2008 none of the District's bank balances was exposed to credit risk.

Investments

The District has ownership in a publicly traded stock that was donated from a local individual. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in market valuations. The fair value of this stock at June 30, 2008 and 2007 is \$2,043.

(3) Net Patient Service Revenue

The District, up until its sale effective December 7, 2007, had agreements with third-party payers that provide for reimbursement to the District at amounts that differ from its established rates. A summary of the payment arrangements with major third-party payers is as follows:

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements

June 30, 2008 and 2007

(3) Net Patient Service Revenue (continued)

Medicare

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed based upon ambulatory payment classifications. Final settlement is determined upon the audit by the Medicare fiscal intermediary of the annual cost report submitted by the District. The District's Medicare cost reports have been desk audited by the Medicare fiscal intermediary through June 30, 2007.

Medicaid/TennCare

Effective January 1, 1994, the TennCare program (State of Tennessee) began in an attempt to provide available and affordable health care to former Medicaid participants. TennCare has available several Managed Care Organizations (MCO's) within its system of which they may be either Preferred Provider Organizations (PPO's) or Health Maintenance Organizations (HMO's). Reimbursement under TennCare is based upon the agreement negotiated between the provider and the MCO's with which they participate. TennCare does not determine fees for services rendered.

(4) Long-Term Debt

Long-term debt and capital lease obligations consist of the following:

	2008	2007
<u>Notes Payable</u>		
(a) Note payable to a management company with interest on the unpaid principal at the rate of 6.75%. The note is payable in 77 monthly payments of \$1,203 with all remaining unpaid principal and interest due at the end of those payments. The note is collateralized by a service agreement with the same company for management services for the District's psychiatric unit. The note was retired in December 2007 from the proceeds of the asset sale.	\$ -	61,963
(b) Note payable to a local bank together with interest at the rate of 4.55%. The note is payable in 35 monthly payments of \$1,862 with all remaining unpaid principal and interest due at the end of those payments. The note is collateralized by a deed of trust on the property located at 305 Grady Road, Etowah, TN. The note was retired in December 2007 from the proceeds of the asset sale.	-	132,684
		(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements

June 30, 2008 and 2007

(4) Long-Term Debt (continued)

	2008	2007
<p>(c) Note payable to a local bank together with interest at the rate of 4.55%. The note is payable in 35 monthly payments of \$4,578 with all final remaining unpaid principal and interest due at the end of those payments. The note is cross-collateralized with note (b) on the property located at 305 Grady Road, Etowah, TN. The note was retired in December 2007 from the proceeds of the asset sale.</p>	\$ -	326,246
<p>(d) Note payable to Southeast Local Development Corporation, due in 240 monthly payments of principal and interest of \$1,161 beginning September 1, 1998, through a final payment in August 2018. The note bears interest at a rate of 4.25% beginning September 1, 2003 (6.98% prior to that date) subject to review at the end of each five-year interval of the note. This note holds as a secondary mortgage on the collateral pledged in notes (b) and (c) above. The note was retired in December 2007 from the proceeds of the asset sale.</p>	-	94,289
<p>(e) Note payable to Southeast Local Development Corporation, due in 240 monthly payments of principal and interest of \$1,161 beginning September 1, 1998, through a final payment in August 2018. The note bears interest at a rate of 4.25% beginning September 1, 2003 (6.98% prior to that date) subject to review at the end of each five-year interval of the note. This note holds as a secondary mortgage on the collateral pledged in notes (b) and (c) above. The note was retired in December 2007 from the proceeds of the asset sale.</p>	-	94,289
<p>(f) Note payable to the United States Government payable by a down payment of \$100,000 due January 2003 plus twenty quarterly payments of \$55,000 through January 2008. The note will include interest accruing at a simple interest rate of 5%. The note was retired in December 2007 from the proceeds of the asset sale.</p>	-	160,960

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements

June 30, 2008 and 2007

(4) Long-Term Debt (continued)

	<u>2008</u>	<u>2007</u>
<u>Obligations under capital leases (Note 6)</u>	\$ -	<u>681,665</u>
	-	1,552,096
Less current maturities of long-term debt and obligations under capital leases	-	<u>836,119</u>
	<u>\$ -</u>	<u>715,977</u>

Changes in long-term debt during the year ended June 30, 2008 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Assumptions</u>	<u>Ending Balance</u>	<u>Due In One Year</u>
\$	870,431	-	870,431	-	-
	<u>681,665</u>	-	<u>681,665</u>	-	-
\$	<u>1,552,096</u>	-	<u>1,552,096</u>	-	-

The District follows the policy of capitalizing interest as a component of the cost of its building projects. Interest costs related to long-term debt and capital leases was \$52,710 (\$241,543 at June 30, 2007) of which none was capitalized for construction projects.

(5) Note Payable

The District entered into a note agreement with a local bank for a maximum of \$3,100,000 with interest to be paid at 5%. The note was due on demand from the bank on or before March 1, 2009. However, the balance on the note was retired after the sale of the District's assets in December 2007. The balance on the note at June 30, 2007 was \$2,420,528.

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements

June 30, 2008 and 2007

(6) Leases

Capital leases

Included in the sale of assets at December 7, 2007, were the following leases assumed by the purchasing entity. The District's obligations under the assumed capital leases are as follows:

	2008	2007
(a) 8.06% lease obligation due in monthly installments of \$2,693 through February 2011; collateralized by ultrasound equipment with an initial value of \$132,596.	\$ -	102,272
(b) 2.12% lease obligation due in monthly installments of \$9,465 through February 2011; collateralized by a CT Scanner with an initial value of \$538,423.	-	400,365
(c) 4.64% lease obligation due in monthly installments of \$1,672 through February 2011; collateralized by ultrasound equipment with an initial value of \$89,358.	-	67,514
(d) 7.92% lease obligation due in monthly installments of \$2,549 through July 2009; collateralized by a Home Health computer system with an initial value of \$81,434.	-	58,565
(e) 8.34% lease obligation due in monthly installments of \$687 through July 2011; collateralized by a GE x-ray system with an initial value of \$23,600.	-	19,975
(f) 7.99% lease obligation due in monthly installments of \$687 through April 2012; collateralized by a NovaPACS system with an initial value of \$33,900.	-	32,974
	-	681,665
Less current installments	-	185,411
	\$ -	496,254

Net book value of assets under capital leases at June 30, 2007 was \$811,832.

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements
June 30, 2008 and 2007

(6) Leases (continued)

Operating leases

The District leased office space and equipment through several operating leases. Details of these leases are as follows:

<u>Lease Type</u>	<u>Maturity Date</u>	<u>Monthly Payment as of June 30, 2008</u>
Office space:		
EMS	June 2007	\$ 875
Dialysis	February 2008	1,974
Athens Clinic	September 2011	2,534
Equipment:		
Various medical equipment	September 2008	1,954

All leases were either assumed by the purchasing company or, as in the case of the Athens Clinic lease, completed with a final negotiated payment to close the lease period requirements. All leases were finalized by June 30, 2008 and no further commitments remained.

The amount paid under these operating leases plus various month-to-month operating leases totaled \$144,468 (including a final payment for the Athens Clinic lease of \$60,000) in 2008 and \$186,501 in 2007.

(7) Employee Retirement Plan

Plan Description

Certain employees of Woods Memorial Hospital District, made up of the Hospital and McMinn Memorial Nursing Home, are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). During the plan year ended June 30, 1990, the District's employee accounts were grouped with the McMinn County Government employees for financial purposes.

TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of sixty with five years of service or at any age with thirty years of service. A reduced retirement benefit is available to vested members at the age of fifty-five. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements

June 30, 2008 and 2007

(7) Employee Retirement Plan (continued)

is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as McMinn County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy and Annual Pension Cost and Trend Information

Information for these areas is not specifically available for the Woods Memorial Hospital District but is included within the aggregated information for the McMinn County Government as a whole. Please find this information for McMinn County within its Comprehensive Annual Financial Report for the year ended June 30, 2008.

In May 2007 the Board of Trustees voted to complete their plan to discontinue their involvement with the TCRS program effective June 30, 2007. Due to the sale of the assets and operations of the District to a private business on December 7, 2007, the eligible employees were allowed to continue in the program until the sale was completed. The District was required to continue matching those contributions thru the completed sale in December. The participants are then able to keep their vested funds with TCRS, withdraw the vested funds or roll the vested funds into another retirement account.

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements

June 30, 2008 and 2007

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to minimize its costs, the District insures itself against potential losses associated with these risks through the purchase of commercial insurance. Due to the sale of the operations in December 2007, the District reduced its insurance coverage to only a directors' and officers' liability policy. This policy provides coverage in this area until the assets of the District are fully disbursed under its agreement with McMinn County, Tennessee. In addition, there have been no losses in excess of insurance coverage during the past three fiscal years.

As of July 1, 2005 the District no longer was self-insured regarding the health insurance coverage of its employees. At that date it began to fully fund a health benefit plan for its employees. Prior to this change management had established a liability of \$168,862 at June 30, 2005 to cover costs of incurred but unpaid or unreported expenses, which require adjustment to the financial statements. There was stop-loss coverage of \$30,000 per employee per year and a \$1 million limit over the lifetime of the covered individual. As there was no overall aggregate stop-loss per group, the District could still have a material exposure.

The schedule below represents the changes in claims liabilities for the current and prior two fiscal years in relation to its self-insurance health program:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Unpaid claims and expenses - beginning of year	\$ -	-	168,862
Incurred claims and expenses	-	-	-
Payments of claims and expenses	<u>-</u>	<u>-</u>	<u>(168,862)</u>
Unpaid claims and expenses - end of year	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements

June 30, 2008 and 2007

(9) Capital Assets

Capital asset activity for the years ended June 30, 2008 and 2007 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>June 30, 2008</u>				
Capital assets, not being depreciated:				
Land	\$ 368,661	-	368,661	-
Construction in progress	-	46,754	46,754	-
	<u>368,661</u>	<u>46,754</u>	<u>415,415</u>	<u>-</u>
Capital assets, being depreciated:				
Land improvements	535,885	-	(535,885)	-
Buildings	10,817,192	-	(10,817,192)	-
Leasehold improvements	49,043	-	(49,043)	-
Fixed equipment	2,968,025	-	(2,968,025)	-
Moveable equipment	9,085,371	23,409	(9,108,780)	-
	<u>23,455,516</u>	<u>23,409</u>	<u>(23,478,925)</u>	<u>-</u>
Less accumulated depreciation for:				
Land improvements	(485,890)	(4,432)	490,322	-
Buildings	(5,483,147)	(135,077)	5,618,224	-
Leasehold improvements	(38,443)	(155)	38,598	-
Fixed equipment	(2,572,935)	(45,058)	2,617,993	-
Moveable equipment	(7,566,814)	(101,563)	7,668,377	-
	<u>(16,147,229)</u>	<u>(286,285)</u>	<u>16,433,514</u>	<u>-</u>
Total capital assets, being depreciated, net	<u>7,308,287</u>	<u>(262,876)</u>	<u>(7,045,411)</u>	<u>-</u>
Capital assets, net	<u>\$ 7,676,948</u>	<u>(216,122)</u>	<u>(6,629,996)</u>	<u>-</u>

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements

June 30, 2008 and 2007

(9) Capital Assets (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>June 30, 2007</u>				
Capital assets, not being depreciated:				
Land	\$ 368,661	-	-	368,661
Construction in progress	359,335	-	359,335	-
	<u>727,996</u>	<u>-</u>	<u>359,335</u>	<u>368,661</u>
Capital assets, being depreciated:				
Land improvements	535,885	-	-	535,885
Buildings	10,428,360	388,832	-	10,817,192
Leasehold improvements	49,043	-	-	49,043
Fixed equipment	2,918,764	49,261	-	2,968,025
Moveable equipment	8,940,620	151,053	(6,302)	9,085,371
	<u>22,872,672</u>	<u>589,146</u>	<u>(6,302)</u>	<u>23,455,516</u>
Less accumulated depreciation for:				
Land improvements	(476,292)	(9,598)	-	(485,890)
Buildings	(5,145,589)	(337,558)	-	(5,483,147)
Leasehold improvements	(38,071)	(372)	-	(38,443)
Fixed equipment	(2,457,787)	(115,148)	-	(2,572,935)
Moveable equipment	(7,282,354)	(290,762)	6,302	(7,566,814)
	<u>(15,400,093)</u>	<u>(753,438)</u>	<u>6,302</u>	<u>(16,147,229)</u>
Total capital assets, being depreciated, net	<u>7,472,579</u>	<u>(164,292)</u>	<u>-</u>	<u>7,308,287</u>
Capital assets, net	<u>\$ 8,200,575</u>	<u>(164,292)</u>	<u>359,335</u>	<u>7,676,948</u>

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements

June 30, 2008 and 2007

(10) Changes in Amounts Invested in Capital Assets, Net of Related Debt

The change in amounts invested in capital assets, net of related debt can be summarized as follows:

		2008	2007
Balance July 1	\$	6,066,088	6,513,543
Change in capital assets		(7,457,224)	523,627
Change in related debt		1,391,136	(971,082)
Balance at June 30	\$	-	6,066,088

(11) Subsequent Event

Ambulance Contract

Effective June 30, 2007 the District's contract, through its subsidiary Ambulance Service, Inc. (the "Company"), to provide ambulance services to the citizens of McMinn County was discontinued. The assets and liabilities of the subsidiary were distributed and retired in 2008 and the Company was dissolved in August 2008.

(12) Litigation

The District is a codefendant in several lawsuits at June 30, 2008. As of the date of this report some of these lawsuits remain unsettled. Management does not anticipate incurring any material loss, except having to meet any applicable deductible, associated with these lawsuits that would not be covered by professional liability insurance.

(13) Commitment

(a) On December 7, 2007, the District entered into an agreement with McMinn County, Tennessee, in regards to the funds left available from the asset sale after all expenses and debt are paid as a result of the sale. This agreement is known as the "Mutual Plan for Excess Proceeds" (the "Plan"). A summary of the main financial terms of this Plan are as follows:

- \$3,000,000 of the purchase price will be placed in an escrow account for a period of three years. The balance of the sale proceeds will be maintained in an operating account to pay obligations of the District not assumed by the buyer at closing.
- On the anniversary date of the agreement one-third of the funds in the escrow account will be released to the District and the funds will be transferred to McMinn County to be placed with any other excess proceeds from the sale in a separate fund of McMinn County and deposited with McMinn County Trustee's office in a permanent fund.

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Notes to Financial Statements
June 30, 2008 and 2007

(13) Commitment (continued)

- The funds in this account must be used for healthcare related purposes related to the needs of residents and organizations within McMinn County.
 - The income and principal of this permanent fund shall not be used for a period of eight years from the anniversary date of the closing except in limited and extraordinary circumstances as detailed in the agreement.
 - During the ninth year following the anniversary of the closing, the McMinn County Commission shall have the authority to use up to thirty-five percent of the income generated during the previous year for health care purposes only, with the assistance of Woods Memorial Foundation, Inc. (the "Foundation"). The remaining income not made available for use for health care purposes shall remain a part of the principal held by the McMinn County Trustee to continue to grow the principal.
 - In addition to its advisory role, the Foundation will receive the contributions held by the District for its benefit, currently \$216,184, and will hold, manage, invest these funds separate from the excess proceeds of this agreement.
- (b) In a prior fiscal year the District's insurance carrier for general liability and workers' compensation, The Reciprocal Group, became insolvent. As a result, the District has several claimants awarded lifetime medical coverage that became the responsibility of the District. The District is currently involved in discussions with various parties to attempt to settle these potential claims to complete any potential liability. Currently the District has only one claimant that is receiving payments for his medical expenses and they average approximately \$7,000 per year. If the District is not able to buy out the lifetime medical benefit of the claimant the District will remain liable for the future medical benefits of the claimant.

(14) Related Party Transaction

One of the District's Board members holds a 3.125% interest in the partnership that purchased the assets and operations of the District in December 2007.

Supplementary Information

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY
SCHEDULES OF PATIENT SERVICE REVENUE - WOODS MEMORIAL HOSPITAL
 Years Ended June 30, 2008 and 2007

	2008			2007		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Routine care	\$ 2,128,915	16,154	2,145,069	5,136,768	47,218	5,183,986
Other services:						
X-Ray	150,993	842,325	993,318	371,608	2,006,036	2,377,644
Operating room	293,393	1,744,390	2,037,783	1,376,289	3,790,635	5,166,924
Recovery room	34,438	129,707	164,145	74,869	291,366	366,235
Emergency room	267,981	2,005,361	2,273,342	483,132	3,843,733	4,326,865
Intravenous solutions	47,798	22,093	69,891	129,468	62,506	191,974
Central service and supply	13,703	8,122	21,825	23,672	22,894	46,566
Observation	94,676	216,831	311,507	192,898	490,609	683,507
Anesthesiology	228	327,097	327,325	601	735,328	735,929
Laboratory	1,055,316	2,981,576	4,036,892	2,489,692	6,867,228	9,356,920
MRI	23,515	675,655	699,170	49,405	1,519,209	1,568,614
Pharmacy	691,709	348,268	1,039,977	1,420,709	623,245	2,043,954
Respiratory care	239,001	56,785	295,786	785,072	122,234	907,306
Nuclear medicine	46,328	248,885	295,213	90,517	563,547	654,064
Ultrasound	55,718	284,488	340,206	136,481	680,904	817,385
CT scanner	528,412	1,841,526	2,369,938	1,038,907	4,021,685	5,060,592
Ambulatory care	94	34,765	34,859	1,539	51,818	53,357
Dialysis	35,498	6,805,216	6,840,714	98,558	18,678,413	18,776,971
Emergency medical services	5	-	5	-	1,195,629	1,195,629
Cardiopulmonary	141,587	297,851	439,438	314,484	800,819	1,115,303
SPECT	33,454	273,552	307,006	85,146	842,918	928,064
Physical therapy	139,343	534,184	673,527	277,493	1,541,551	1,819,044
Speech therapy	32,640	14,943	47,583	19,556	28,730	48,286
Labor and delivery	-	90	90	-	90	90
Wound Care Center	616	623,943	624,559	13,623	1,156,285	1,169,908
Industrial rehabilitation	-	-	-	-	81,441	81,441
Sleep lab	-	160,800	160,800	-	356,726	356,726
Occupational health	14,735	64,388	79,123	16,871	121,687	138,558
School health	-	15,073	15,073	-	29,878	29,878
	<u>3,941,181</u>	<u>20,557,914</u>	<u>24,499,095</u>	<u>9,490,590</u>	<u>50,527,144</u>	<u>60,017,734</u>
Total patient service revenue	<u>\$ 6,070,096</u>	<u>20,574,068</u>	<u>26,644,164</u>	<u>14,627,358</u>	<u>50,574,362</u>	<u>65,201,720</u>

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY
SCHEDULES OF OPERATING EXPENSES - WOODS MEMORIAL HOSPITAL
Year Ended June 30, 2008 and 2007

	2008		2007	
	Personal Services	Supplies and Other Expenses	Personal Services	Supplies and Other Expenses
Professional care:				
Nursing services	\$ 653,253	279,211	1,577,652	638,469
Intensive care unit	179,299	10,401	460,261	38,540
Operating room	159,331	285,163	363,061	548,427
Central service and supply	45,155	62,371	102,235	83,698
Emergency room	245,227	28,900	594,462	143,076
Laboratory	196,722	486,097	489,556	959,767
X-Ray, CT scanner, nuclear and ultrasound	246,366	207,552	530,244	554,133
Pharmacy	112,310	200,413	273,591	332,637
Anesthesiology	-	118,346	-	484,174
Respiratory care	96,270	70,283	241,347	148,028
MRI	-	103,354	-	331,750
Cardiology pulmonary services	20,020	23,720	48,132	67,828
Vascular and IV services	-	-	-	3
Medical records	112,121	16,584	213,479	143,433
Physical therapy	153,404	32,185	309,718	114,058
Social services	776	-	2,737	-
Athens Clinic	-	75,105	138,880	51,998
Englewood Clinic	(3,437)	3,087	200,841	70,710
Emergency medical service	8,608	2,781	861,220	390,014
Terminal care	-	-	-	5,158
Multi-specialty Clinic	5,334	737	10,464	1,163
Sleep lab	-	26,865	-	92,975
Dialysis	134,924	568,718	353,957	1,201,923
SPECT	-	53,423	-	169,932
Occupational health	39,740	19,823	108,344	20,933
Jail clinic	21,890	8,732	47,498	18,522
Weight management	355	-	-	-
Industrial rehabilitation	-	-	61,250	427
Case management	23,273	400	54,270	3
School health	13,506	927	36,525	1,199
Wound Care Center	62,827	101,444	148,204	70,472
	<u>2,527,274</u>	<u>2,786,622</u>	<u>7,227,928</u>	<u>6,683,450</u>
Dietary:				
Salaries	16,987	-	42,303	-
Management contract	-	285,953	-	680,280
Food	-	119,922	-	211,648
Dishes, glass, silver and other expenses	-	38,783	-	98,488
	<u>16,987</u>	<u>444,658</u>	<u>42,303</u>	<u>990,416</u>
Less: allocated to nursing home	-	264,369	-	446,115
allocated to other	-	-	-	19,804
	<u>16,987</u>	<u>180,289</u>	<u>42,303</u>	<u>524,497</u>
Housekeeping	<u>62,475</u>	<u>14,226</u>	<u>156,239</u>	<u>29,195</u>

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY
SCHEDULES OF OPERATING EXPENSES - WOODS MEMORIAL HOSPITAL
Year Ended June 30, 2008 and 2007

	2008		2007	
	Personal Services	Supplies and Other Expenses	Personal Services	Supplies and Other Expenses
Linen services	\$ -	33,217	-	83,572
Plant operations and maintenance:				
Salaries	63,980	-	155,391	-
Purchased services	-	20,360	-	41,541
Natural gas	-	25,102	-	85,505
Electricity	-	100,515	-	226,454
Water	-	23,957	-	57,411
Oil/diesel	-	-	-	1,383
Supplies	-	7,739	-	30,517
Repairs - equipment	-	25,978	-	85,223
	<u>63,980</u>	<u>203,651</u>	<u>155,391</u>	<u>528,034</u>
Administrative:				
Salaries	209,292	-	450,644	-
Management fee	-	34,195	-	79,791
Dues and travel	-	2,414	-	61,889
Professional fees	-	313,319	-	388,253
Physician recruitment	-	67,867	-	122,708
Miscellaneous	-	155,820	-	122,753
	<u>209,292</u>	<u>573,615</u>	<u>450,644</u>	<u>775,394</u>
General and patient accounting:				
Salaries	153,430	-	359,210	-
Supplies	-	25,503	-	70,774
Telephone	-	19,009	-	54,465
Postage machine rent and postage	-	7,807	-	23,088
Information technology	15,767	22,580	5,272	31,353
Miscellaneous expenses	-	54,608	-	148,224
	<u>169,197</u>	<u>129,507</u>	<u>364,482</u>	<u>327,904</u>
Public relations:				
Salaries	27,485	-	65,778	-
Advertising	-	6,124	-	25,240
Supplies	-	573	-	328
Miscellaneous expenses	-	5,153	-	13,356
	<u>27,485</u>	<u>11,850</u>	<u>65,778</u>	<u>38,924</u>
Personnel	<u>17,430</u>	<u>17,675</u>	<u>93,098</u>	<u>23,637</u>

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY
SCHEDULES OF OPERATING EXPENSES - WOODS MEMORIAL HOSPITAL
Year Ended June 30, 2008 and 2007

	2008		2007	
	Personal Services	Supplies and Other Expenses	Personal Services	Supplies and Other Expenses
Unallocated expenses:				
Payroll taxes	\$ -	257,921	-	684,999
Insurance - general	-	87,386	-	173,646
Insurance - workmen's compensation	-	116,269	-	198,850
Employee benefits - retirement	-	123,145	-	543,868
Employee benefits - insurance	-	163,520	-	343,822
Employee benefits - other	-	(5,302)	-	51,209
	-	<u>742,939</u>	-	<u>1,996,394</u>
Depreciation:				
Buildings and improvements	-	126,053	-	314,597
Fixed equipment	-	34,427	-	88,728
Moveable equipment	-	94,654	-	270,122
	-	<u>255,134</u>	-	<u>673,447</u>
Home health services:				
Salaries	260,353	-	479,793	-
Professional fees	-	2,000	-	2,700
Travel	-	23,813	-	44,928
Miscellaneous expenses	-	45,804	-	82,540
	<u>260,353</u>	<u>71,617</u>	<u>479,793</u>	<u>130,168</u>
Total operating expenses	\$ <u>3,354,473</u>	<u>5,020,342</u>	<u>9,035,656</u>	<u>11,814,616</u>

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY
SCHEDULES OF PATIENT SERVICE REVENUE -
McMINN MEMORIAL NURSING HOME
Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Patient service revenues:		
Daily patient services	\$ 1,831,463	4,239,542
Central service and supplies	194,652	554,910
Pharmacy	69,790	188,613
Laboratory	28,677	94,837
X-ray	5,498	18,757
Physical therapy	211,583	319,027
Speech therapy	57,222	193,097
Occupational therapy	272,419	430,100
Total patient service revenues	\$ <u>2,671,304</u>	<u>6,038,883</u>

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY
SCHEDULES OF OPERATING EXPENSES- McMINN MEMORIAL NURSING HOME
Years Ended June 30, 2008 and 2007

	2008		2007	
	Personal Services	Supplies and Other Expenses	Personal Services	Supplies and Other Expenses
Professional care:				
Nursing services	\$ 639,148	236,013	1,513,613	651,700
Rehabilitation services	150,924	44,406	315,050	46,805
	<u>790,072</u>	<u>280,419</u>	<u>1,828,663</u>	<u>698,505</u>
Dietary:				
Food	-	265,807	-	423,605
Housekeeping	106,507	10,010	253,047	22,569
Linen services	-	49,342	-	109,495
Plant operations and maintenance:				
Outside repairs	-	12,140	-	25,049
Power plant - gas	-	2,059	-	14,835
Electricity	-	22,940	-	42,102
Water	-	4,292	-	15,340
	<u>-</u>	<u>41,431</u>	<u>-</u>	<u>97,326</u>
Administrative:				
License, dues and subscriptions	-	99,490	-	188,986
Travel and training	-	5,280	-	5,999
Other	-	593	-	19,112
	<u>-</u>	<u>105,363</u>	<u>-</u>	<u>214,097</u>
Unallocated expenses:				
Insurance - general	-	33,948	-	54,957
Insurance - workers' comp	-	32,270	-	61,396
Employee benefits - hospitalization	-	39,505	-	87,798
Employee benefits - retirement	-	15,129	-	116,225
	<u>-</u>	<u>120,852</u>	<u>-</u>	<u>320,376</u>
Depreciation	-	26,668	-	69,884
Total operating expenses	<u>\$ 896,579</u>	<u>899,892</u>	<u>2,081,710</u>	<u>1,955,857</u>

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

CFDA Number	Description	Receivable (Unearned) July 1, 2007	Cash Receipts	Expenditures	Adjustments and Reclassifications	Receivable (Unearned) June 30, 2008
GRANTS:						
Federal Assistance Program						
<i>Department of Health and Human Services</i>						
93.889	Bioterrorism Hospital Preparedness (Contract #Z-06-029028-00)	\$ (15,000)	-	15,000	-	-
93.301	Small Rural Hospital Improvement (Contract #Z-06-031253-00)	(9,000)	-	9,000	-	-
		<u>\$ (24,000)</u>	<u>-</u>	<u>24,000</u>	<u>-</u>	<u>-</u>



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

Board of Trustees
Woods Memorial Hospital District
Etowah, Tennessee

McMinn County Commission
McMinn County Courthouse
Athens, Tennessee

We have audited the financial statements of Woods Memorial Hospital District & subsidiary (the "District") as of and for the year ended June 30, 2008, and have issued our report thereon dated July 6, 2009. 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 District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 District'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 District's financial statements is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiency, 08-01, described in the accompanying Schedule of Audit Findings and Management Response to be a significant deficiency in internal control over financial reporting.

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 presented or detected by the District's internal control. Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies



that are also considered to be material weaknesses. We believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of Audit Findings and Management Response as finding 08-02.

This report is intended for the information and use of the Board of Trustees, the McMinn County Commission, management and federal awarding agencies and pass-through entities and is not to be used by anyone other than these specified parties.

HGA Associates, P.C.

July 6, 2009

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Schedule of Audit Findings and Management Response
Year Ended June 30, 2008

FINDINGS - FINANCIAL STATEMENT AUDIT**(08-01) Finding: Accounting Control Procedures**

After the sale of the assets and the District's operations in December 2007 there were no remaining employees to complete the accounting procedures for recording, processing and reporting its operations. Thus, our audit process required several adjustments of a material nature to record activities of the District from the time of the sale through the fiscal year end June 30, 2008.

Recommendation

We recommend the District take the appropriate steps to insure that its operating activities are recorded for the remainder of its existence to allow for an accurate presentation in the financial report of McMinn County.

Management Response

It was the Board's decision not to continue paying for an employee to conserve funds. The CEO agreed to consult on any problems and did so at no cost. The entry by auditor for non-operating unit is appropriate. CEO was available to review and discuss journal entries. Board was made aware of each settlement problem.

(08-02) Finding: Completion of Federal Form 1099

The District paid an individual for contracted services to close the operations after the sale in December 2007. Those payments were not reported appropriately by the completion of the Internal Revenue Service reporting form 1099.

Recommendation

We recommend the District take the appropriate steps to insure that its payments for similar services are properly reported for calendar year 2008 and, if any, for calendar year 2009.

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT & SUBSIDIARY

Schedule of Audit Findings and Management Response (continued)

Year Ended June 30, 2008

(08-02) Finding: Completion of Federal Form 1099 (continued)**Management Response**

CEO agreed to close operations and continue to consult during three year period of escrow fund retention. CEO did report earnings on tax return. 1099 preparation was overlooked.

STATUS – PRIOR YEAR FINDINGS**(07-01) Finding: Accounting Control Procedures – Recording of Capital Leases**

This finding related to the District not appropriately recording its capital lease transactions for the year end June 30, 2007. The activity surrounding capital lease transactions were properly recorded in this reporting period.