

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

*Audited Combined Financial Statements  
(and Other Information)*

*Years Ended June 30, 2009 and 2008*



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

*Audited Combined Financial Statements (and Other Information)*

*Years Ended June 30, 2009 and 2008*

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*Introductory Section*

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## ***Introductory Section***



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## LETTER OF TRANSMITTAL

September 11, 2009

To the Board of Trustees of Williamson County Hospital District  
Williamson County, Tennessee

The accompanying financial statements of the Williamson County Hospital District (Williamson Medical Center) (the Medical Center) for the year ended June 30, 2009, are hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentations, including all disclosures, rests with the Medical Center. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Medical Center. All disclosures necessary to enable the reader to gain an understanding of the Medical Center's activities have been included. These financial statements have been audited by Pershing Yoakley & Associates, P.C.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides general information about the Medical Center and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Donald Webb", is written over a horizontal line.

Donald Webb  
Chief Financial Officer

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

*Officers and Board of Trustees*

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**WILLIAMSON MEDICAL CENTER OFFICERS**

Dennis Miller, Chief Executive Officer  
Donald Webb, Chief Financial Officer  
Julie Miller, Chief Operating Officer  
Lori Orme, Chief Nursing Officer  
Ashley Perkins, Associate Administrator-Nursing  
Paul Bolin, Associate Administrator-Finance & Compliance  
Tim Burton, Associate Administrator-Human Resources

**WILLIAMSON MEDICAL CENTER BOARD OF TRUSTEES**

Rogers Anderson  
A.J. Bethurum, M.D.  
Isaac (Ike) Brown  
James (Bo) Butler  
Bertham (Bert) Chalfant  
Jim Cross, IV  
Brown Daniel  
Craig Ferrell, M.D.  
Russell Little  
Clyde Lynch  
Kathy McGee  
Mary Mills



CERTIFIED PUBLIC ACCOUNTANTS

Pershing Yoakley & Associates, P.C.  
One Perkins Place, 525 Portland Street  
Knoxville, TN 37919

(p) (865) 673-0844 (f) (865) 673-0173  
(w) www.pyapc.com

## 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, 2009 and 2008, 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 the purpose of 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, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2009 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.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of the Medical Center's management. 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.

*Penning Yoakley & Associates, P.C.*

Knoxville, Tennessee  
September 11, 2009

***Management's Discussion and Analysis***

## WILLIAMSON COUNTY HOSPITAL DISTRICT (WILLIAMSON MEDICAL CENTER)

### *Management's Discussion and Analysis*

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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, 2009 and 2008. 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 due to improved collections of patient accounts which led to increased cash and decreased accounts receivable. At the end of fiscal year 2008, gross accounts receivable days were 61.6 and at the end of fiscal year 2009 gross accounts receivable days were 48.5.

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

*Management's Discussion and Analysis - Continued*

NOTEWORTHY FINANCIAL ACTIVITY - Continued

- Gross patient service charges for the Medical Center increased by \$37 million or 12%. Most fees were increased by 15% effective January 1, 2009. Measures of patient activity are as follows:

	<i>Year Ended June 30,</i>	
	<i>2009</i>	<i>2008</i>
Patient days	37,255	35,905
Equivalent patient days	79,049	78,891
Surgery minutes	799,365	785,385
Case mix index	1.19	1.21

- Net patient service revenue increased by \$829,000 from the prior year. The increase in net patient service revenue is attributable to expansion of services provided by the Medical Center through the establishment of new physician practices. 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>2009</i>	<i>2008</i>	<i>Point Changes</i>
Medicare	38.50%	38.36%	0.14
Managed care	12.20%	13.18%	-0.98
Commercial	11.30%	11.15%	0.15
TennCare	5.90%	5.69%	0.21
Self pay	5.50%	4.94%	0.56
Blue Cross	26.60%	26.68%	-0.08
	<u>100.00%</u>	<u>100.00%</u>	

- Salaries, wages and benefits increased \$5.7 million or 8%. Full Time Equivalents (FTEs) were 1,146 and 1,188 in fiscal years 2008 and 2009, respectively. Overall benefit cost increased 6%. Employee health benefits increased 16% over the previous year.
- Investment income declined \$1.2 million from fiscal year 2008 to 2009. Interest earned on the Medical Center's cash deposits is tied to the Federal Funds rate, which has decreased significantly in recent years.

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

*Management's Discussion and Analysis - Continued*

**FINANCIAL POSITION**

	<i>June 30,</i>	
	<i>2009</i>	<i>2008</i>
<b>Assets:</b>		
Current assets	\$ 34,656,749	\$ 33,068,172
Property and equipment, net	119,383,168	116,363,509
Non-current assets limited as to use	34,096,502	31,426,897
Other non-current assets	1,279,178	2,644,785
Total assets	<u>\$ 189,415,597</u>	<u>\$ 183,503,363</u>
<b>Liabilities:</b>		
Current liabilities	\$ 15,428,299	\$ 15,875,926
Bonds, notes payable and obligations under capital lease (excluding current portion)	46,200,085	43,411,792
Total liabilities	<u>\$ 61,628,384</u>	<u>\$ 59,287,718</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	\$ 67,185,863	\$ 68,681,541
Restricted expendable net assets	674,123	829,513
Unrestricted	59,927,227	54,704,591
Total net assets	<u>\$ 127,787,213</u>	<u>\$ 124,215,645</u>

As of June 30, 2009, the Medical Center's current assets of \$34.7 million were sufficient to cover current liabilities of \$15.4 million (current ratio of 2.3).

Total liabilities were \$61.6 million at June 30, 2009, compared to \$59.3 million at June 30, 2008.

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

	<i>Year Ended June 30,</i>	
	<i>2009</i>	<i>2008</i>
<b>Operating revenues:</b>		
Net patient service revenue	\$ 133,272,572	\$ 132,443,842
Other operating revenue	8,772,762	8,363,080
Total operating revenues	142,045,334	140,806,922
<b>Operating expenses:</b>		
Salaries, wages and benefits	77,114,279	71,400,804

**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**

	<i>Year Ended June 30,</i>	
	<i>2009</i>	<i>2008</i>
Supplies and other	50,374,738	48,596,626
Depreciation and amortization	9,238,297	8,372,319
Total operating expenses	<u>136,727,314</u>	<u>128,369,749</u>
Operating income	5,318,020	12,437,173
Nonoperating revenue (expenses):		
Investment income	494,133	1,699,752
Interest expense	(2,170,588)	(2,135,820)
Loss on investment in joint venture	(294,706)	(102,852)
Other, net	52,264	685,360
Nonoperating revenues (expenses), net	<u>(1,918,897)</u>	<u>146,440</u>
Revenue and gains in excess of expenses and losses	3,399,123	12,583,613
Capital grants and contributions	172,445	255,563
Increase in net assets	<u>3,571,568</u>	<u>12,839,176</u>
Net assets, beginning of year	<u>124,215,645</u>	<u>111,376,469</u>
Net assets, end of year	<u>\$ 127,787,213</u>	<u>\$ 124,215,645</u>

Total operating revenues for 2009 are comprised of net patient service revenue (\$133 million) and other operating revenue (\$8.8 million). Net patient service revenue for 2009 represents 37% of gross service charges, down from 41% of gross charges in 2008. Contractual arrangements with third-party payors, bad debt and charity care account for the difference between gross service charges and net patient service revenue.

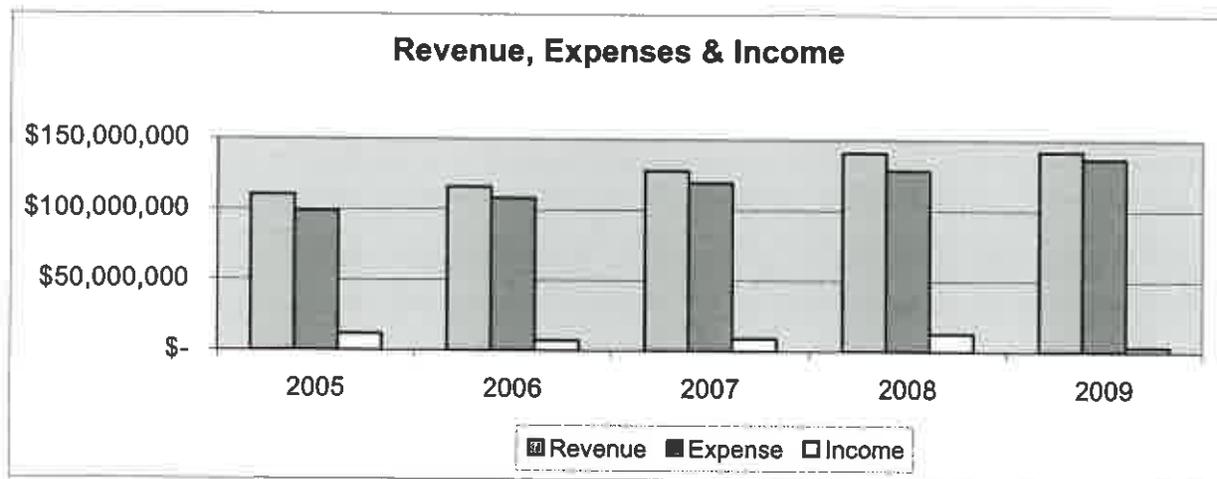
Total operating expenses for 2009, including depreciation and amortization of \$9.2 million, were \$136.7 million. The salaries, wages and benefits expense accounted for 56.4% of the 2009 total operating expenses (up from 55.6% in 2008) and were responsible for \$5.7 million of the \$8.4 million total operating expense growth from the prior year.

The operating income to total operating revenue margin for fiscal year 2009 was 3.7% compared to 8.8% for 2008. The graph below reflects the total operating revenue, operating expense and excess of revenues over expenses by fiscal year for the past five years:

**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**



**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 2009, the Medical Center had \$119.4 million invested in capital assets, net of accumulated depreciation, as detailed in Note F to the combined financial statements. In 2009, the Medical Center purchased or otherwise added to property and equipment, net of transfers from construction in progress, approximately \$12.5 million compared to \$14.7 million in the prior year.

**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, 2009*

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash	\$ 5,962,335	\$ -	\$ 5,962,335
Assets limited as to use required to meet current obligations	2,652,536	-	2,652,536
Patient accounts receivable, net of estimated allowance for uncollectible accounts of \$6,289,734	22,466,931	-	22,466,931
Other receivables	1,650,583	12,544	1,663,127
Inventories	1,677,661	-	1,677,661
Prepaid expenses	234,159	-	234,159
TOTAL CURRENT ASSETS	34,644,205	12,544	34,656,749
<b>ASSETS LIMITED AS TO USE, less amounts required to meet current obligations:</b>			
By Board for capital improvements	33,473,620	-	33,473,620
By Board for bond principal and interest payments	2,652,536	-	2,652,536
By donors	45,162	577,720	622,882
TOTAL ASSETS LIMITED AS TO USE	36,171,318	577,720	36,749,038
Less: amount classified as current	(2,652,536)	-	(2,652,536)
	33,518,782	577,720	34,096,502
PROPERTY AND EQUIPMENT, net	119,383,168	-	119,383,168
<b>OTHER ASSETS:</b>			
Other receivables, less current portion	255,295	-	255,295
Investment in joint ventures	797,285	-	797,285
Bond issuance costs, net of accumulated amortization	226,598	-	226,598
TOTAL OTHER ASSETS	1,279,178	-	1,279,178
TOTAL ASSETS	\$ 188,825,333	\$ 590,264	\$ 189,415,597

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 2,033,273	\$ 3,535	\$ 2,036,808
Accrued payroll, compensated absences and payroll related liabilities	4,774,784	-	4,774,784
Accrued expenses and other liabilities	2,078,084	-	2,078,084
Accrued interest expense	209,831	-	209,831
Current portion of bonds and notes payable	5,066,831	-	5,066,831
Current portion of obligations under capital leases	930,389	-	930,389
Estimated amounts due to third-party payors	331,572	-	331,572
TOTAL CURRENT LIABILITIES	15,424,764	3,535	15,428,299
BONDS AND NOTES PAYABLE, excluding current portion	44,786,472	-	44,786,472
OBLIGATIONS UNDER CAPITAL LEASES, excluding current portion	1,413,613	-	1,413,613
TOTAL LIABILITIES	61,624,849	3,535	61,628,384
COMMITMENTS AND CONTINGENCIES - Note N			
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	67,185,863	-	67,185,863
Restricted	87,394	586,729	674,123
Unrestricted	59,927,227	-	59,927,227
TOTAL NET ASSETS	127,200,484	586,729	127,787,213
TOTAL LIABILITIES AND NET ASSETS	\$ 188,825,333	\$ 590,264	\$ 189,415,597

**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>
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
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
<b>TOTAL CURRENT ASSETS</b>	<b>33,043,657</b>	<b>24,515</b>	<b>33,068,172</b>
<b>ASSETS LIMITED AS TO USE, less amounts required to meet current obligations:</b>			
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
<b>TOTAL ASSETS LIMITED AS TO USE</b>	<b>33,307,959</b>	<b>773,332</b>	<b>34,081,291</b>
Less: amount classified as current	(2,654,394)	-	(2,654,394)
	30,653,565	773,332	31,426,897
<b>PROPERTY AND EQUIPMENT, net</b>	<b>116,363,509</b>	<b>-</b>	<b>116,363,509</b>
<b>OTHER ASSETS:</b>			
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
<b>TOTAL OTHER ASSETS</b>	<b>2,644,785</b>	<b>-</b>	<b>2,644,785</b>
<b>TOTAL ASSETS</b>	<b>\$ 182,705,516</b>	<b>\$ 797,847</b>	<b>\$ 183,503,363</b>

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
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
<b>TOTAL LIABILITIES</b>	<b>59,275,301</b>	<b>12,417</b>	<b>59,287,718</b>
<b>COMMITMENTS AND CONTINGENCIES - Note N</b>			
<b>NET ASSETS:</b>			
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
<b>TOTAL NET ASSETS</b>	<b>123,430,215</b>	<b>785,430</b>	<b>124,215,645</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 182,705,516</b>	<b>\$ 797,847</b>	<b>\$ 183,503,363</b>

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

*Combined Statements of Revenues, Expenses and Changes in Net Assets*

*Year Ended June 30, 2009*

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
<b>OPERATING REVENUES:</b>			
Net patient service revenue, net of estimated provision for bad debts of \$11,790,147	\$ 133,272,572	\$ -	\$ 133,272,572
Other revenue	8,772,762	-	8,772,762
<b>TOTAL OPERATING REVENUES</b>	<b>142,045,334</b>	<b>-</b>	<b>142,045,334</b>
<b>OPERATING EXPENSES:</b>			
Salaries, wages and benefits	77,114,279	-	77,114,279
Supplies and other	50,374,738	-	50,374,738
Depreciation and amortization	9,238,297	-	9,238,297
<b>TOTAL OPERATING EXPENSES</b>	<b>136,727,314</b>	<b>-</b>	<b>136,727,314</b>
<b>OPERATING INCOME</b>	<b>5,318,020</b>	<b>-</b>	<b>5,318,020</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income	494,133	-	494,133
Interest expense	(2,170,588)	-	(2,170,588)
Loss on investment in joint ventures	(294,706)	-	(294,706)
Other, net	380,099	(327,835)	52,264
<b>NET NONOPERATING EXPENSES</b>	<b>(1,591,062)</b>	<b>(327,835)</b>	<b>(1,918,897)</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>3,726,958</b>	<b>(327,835)</b>	<b>3,399,123</b>
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>43,311</b>	<b>129,134</b>	<b>172,445</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>3,770,269</b>	<b>(198,701)</b>	<b>3,571,568</b>
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	<b>123,430,215</b>	<b>785,430</b>	<b>124,215,645</b>
<b>NET ASSETS, END OF THE YEAR</b>	<b>\$ 127,200,484</b>	<b>\$ 586,729</b>	<b>\$ 127,787,213</b>

**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>
<b>OPERATING REVENUES:</b>			
Net patient service revenue, net of estimated provision for bad debts of \$9,488,582	\$ 132,443,842	\$ -	\$ 132,443,842
Other revenue	8,363,080	-	8,363,080
<b>TOTAL OPERATING REVENUES</b>	<b>140,806,922</b>	<b>-</b>	<b>140,806,922</b>
<b>OPERATING EXPENSES:</b>			
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
<b>TOTAL OPERATING EXPENSES</b>	<b>128,369,749</b>	<b>-</b>	<b>128,369,749</b>
<b>OPERATING INCOME</b>	<b>12,437,173</b>	<b>-</b>	<b>12,437,173</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Investment income	1,699,752	-	1,699,752
Interest expense	(2,135,820)	-	(2,135,820)
Loss on investment in joint ventures	(102,852)	-	(102,852)
Other, net	986,930	(301,570)	685,360
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>448,010</b>	<b>(301,570)</b>	<b>146,440</b>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>12,885,183</b>	<b>(301,570)</b>	<b>12,583,613</b>
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<b>10,258</b>	<b>245,305</b>	<b>255,563</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>12,895,441</b>	<b>(56,265)</b>	<b>12,839,176</b>
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	<b>110,534,774</b>	<b>841,695</b>	<b>111,376,469</b>
<b>NET ASSETS, END OF THE YEAR</b>	<b>\$ 123,430,215</b>	<b>\$ 785,430</b>	<b>\$ 124,215,645</b>

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

*Combined Statements of Cash Flows*

*Year Ended June 30, 2009*

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from and on behalf of patients	\$ 137,474,374	\$ -	\$ 137,474,374
Receipts from other operations	4,259,424	-	4,259,424
Rent receipts	2,926,928	-	2,926,928
Payments to vendors for supplies and other	(52,227,206)	-	(52,227,206)
Payments to employees	(76,769,281)	-	(76,769,281)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>15,664,239</b>	<b>-</b>	<b>15,664,239</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Contributions from others	43,311	-	43,311
Contributions received from Williamson County	1,943,629	-	1,943,629
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>1,986,940</b>	<b>-</b>	<b>1,986,940</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Capital expenditures, net	(10,461,850)	-	(10,461,850)
Principal paid on bonds and notes payable	(4,306,058)	-	(4,306,058)
Proceeds from the issuance of debt	6,551,931	-	6,551,931
Repayment of obligations under capital leases	(472,323)	-	(472,323)
Interest paid on capital debt	(2,187,071)	-	(2,187,071)
Contributions made by the Foundation, net	-	(195,612)	(195,612)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCIAL ACTIVITIES</b>	<b>(10,875,371)</b>	<b>(195,612)</b>	<b>(11,070,983)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Contributions to joint ventures	(345,977)	-	(345,977)
Proceeds from sale of shares in joint venture	200,000	-	200,000
Investment income	494,133	-	494,133
Other, net	380,099	-	380,099
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>728,255</b>	<b>-</b>	<b>728,255</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>7,504,063</b>	<b>(195,612)</b>	<b>7,308,451</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>34,629,590</b>	<b>773,332</b>	<b>35,402,922</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 42,133,653</b>	<b>\$ 577,720</b>	<b>\$ 42,711,373</b>

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:</b>			
Cash	\$ 5,962,335	\$ -	\$ 5,962,335
Assets limited as to use by Board for capital improvements and bond principal and interest payments	36,126,156	-	36,126,156
Cash assets limited as to use by donors	45,162	577,720	622,882
Cash and cash equivalents	<u>\$ 42,133,653</u>	<u>\$ 577,720</u>	<u>\$ 42,711,373</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Operating income	\$ 5,318,020	\$ -	\$ 5,318,020
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	9,238,297	-	9,238,297
Estimated provision for bad debts	11,790,147	-	11,790,147
Contributions from Williamson County	(1,943,629)	-	(1,943,629)
Increase (decrease) in cash due to changes in:			
Patient accounts receivable, net	(8,292,154)	-	(8,292,154)
Other receivables	357,219	-	357,219
Inventories	25,911	-	25,911
Prepaid expenses	348,794	-	348,794
Accounts payable	(1,097,007)	-	(1,097,007)
Accrued payroll, compensated absences and payroll related liabilities	344,998	-	344,998
Accrued expenses and other liabilities	(238,043)	-	(238,043)
Estimated amounts due to third-party payors	(188,314)	-	(188,314)
Total adjustments	<u>10,346,219</u>	<u>-</u>	<u>10,346,219</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 15,664,239</u>	<u>\$ -</u>	<u>\$ 15,664,239</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Construction related accounts payable	\$ 285,568	\$ -	\$ 285,568
Capital lease obligations for equipment	<u>\$ 2,741,787</u>	<u>\$ -</u>	<u>\$ 2,741,787</u>

**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>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
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 vendors for supplies and other	(47,403,073)	-	(47,403,073)
Payments to employees	(71,249,996)	-	(71,249,996)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>14,255,783</b>	<b>-</b>	<b>14,255,783</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Contributions from others	10,258	-	10,258
Contributions received from Williamson County	1,845,792	-	1,845,792
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>1,856,050</b>	<b>-</b>	<b>1,856,050</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Capital expenditures, net	(17,075,460)	-	(17,075,460)
Principal paid on bonds and notes payable	(11,324,411)	-	(11,324,411)
Proceeds from note payable	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 made by the Foundation	-	(31,569)	(31,569)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCIAL ACTIVITIES</b>	<b>(18,024,794)</b>	<b>(31,569)</b>	<b>(18,056,363)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net increase in other long-term investments	11,768	-	11,768
Investment income	1,699,752	-	1,699,752
Other, net	986,930	-	986,930
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>2,698,450</b>	<b>-</b>	<b>2,698,450</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>785,489</b>	<b>(31,569)</b>	<b>753,920</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>33,844,101</b>	<b>804,901</b>	<b>34,649,002</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 34,629,590</b>	<b>\$ 773,332</b>	<b>\$ 35,402,922</b>

	<i>Primary Enterprise</i>	<i>Component Unit</i>	<i>Total Reporting Entity</i>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS:</b>			
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>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
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>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>\$ 14,255,783</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 14,255,783</b></u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:</b>			
Construction related accounts payable	\$ 1,256,508	\$ -	\$ 1,256,508
Capital lease obligations for equipment	\$ 99,995	\$ -	\$ 99,995

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

*Notes to Combined Financial Statements*

*Years Ended June 30, 2009 and 2008*

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NOTE A--REPORTING ENTITY

*Primary Enterprise:* 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. 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.

*Discretely Presented Component Unit:* Williamson Medical Center Foundation (the Foundation) is a tax-exempt organization which was established in 2003. The Foundation was formed to coordinate the fund-raising and development activities of the Medical Center which is the sole member of the organization. The activities of the Foundation are not considered core to the provision of healthcare services; therefore, the results of its operations are included in nonoperating revenue (expenses), net, in the accompanying combined statements of revenues, expenses, and changes in net assets. All assets of the Foundation, other than unconditional promises to give, are shown as a part of assets limited as to use in the accompanying combined balance sheets.

The Medical Center follows the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement No. 14*. As a result, the Foundation is included in the accompanying combined financial statements as a discretely presented component unit of the Medical Center.

As required by accounting principles generally accepted in the United States of America, these combined financial statements present both Williamson Medical Center and its discretely presented component unit (collectively referred to as the reporting entity).

Financial statements for the discretely presented individual component unit may be obtained at the following address:

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE A--REPORTING ENTITY - Continued

Williamson Medical Center  
4321 Carothers Parkway  
Franklin, TN 37067

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 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, 2 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 and amortization expense and accumulated depreciation and amortization, 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

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

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 of the joint 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.

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 remaining 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*.

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

*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 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.

*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.

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

*Newly Adopted Accounting Pronouncements: Fair Value Measurement* - In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies only to fair-value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. The definition of fair value focuses on the exit price (i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date), not the entry price (i.e., the price that would be paid to acquire the asset or received to assume the liability at the measurement date). The statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The effective date for SFAS No. 157 was for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Medical Center adopted SFAS No. 157 effective July 1, 2008. There was no significant impact on the financial statements from adopting this standard. At June 30, 2009, the Medical Center had no assets or liabilities meeting the criteria for disclosure, under guidance established in SFAS No. 157.

*Reclassifications:* Certain reclassifications have been made to 2008 amounts to be consistent with 2009 classifications.

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

A significant portion of the amount of services provided by the Medical Center is 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>2009</i>	<i>2008</i>
Gross patient service charges	\$ 358,676,653	\$ 321,264,347
Less: Medicare contractual adjustments	(94,432,862)	(80,371,107)
TennCare contractual adjustments	(19,206,995)	(16,631,364)

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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

	<i>Year Ended June 30,</i>	
	<i>2009</i>	<i>2008</i>
Other contractual adjustments	(95,336,351)	(79,061,153)
Bad debt	(11,790,147)	(9,488,582)
Charity care	(4,637,726)	(3,268,299)
	<u>(225,404,081)</u>	<u>(188,820,505)</u>
Net patient service revenue	<u>\$ 133,272,572</u>	<u>\$ 132,443,842</u>

Net patient accounts receivable consists of the following:

	<i>June 30,</i>	
	<i>2009</i>	<i>2008</i>
Insurance carriers under commercial plans	\$ 9,424,285	\$ 9,738,747
Managed care plans	3,242,329	3,721,125
Medicare	3,603,940	5,603,641
TennCare	442,079	429,381
Patients, including self-insured	12,044,032	13,129,131
	<u>28,756,665</u>	<u>32,622,025</u>
Less: estimated allowance for uncollectible accounts	(6,289,734)	(6,657,101)
	<u>\$ 22,466,931</u>	<u>\$ 25,964,924</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. Activity with respect to audits and reviews of governmental programs and reimbursement has increased and is expected to increase in the future. No additional reserves or allowances have been established with regard to these increased audits and reviews as management is not

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE D--THIRD-PARTY PAYOR AGREEMENTS - Continued

able to estimate such amounts. In the opinion of management, any adjustments which may result from such audits and reviews will not have a material impact on the financial statements; however, due to the uncertainties involved, it is at least reasonably possible that management's estimates will change in the future. 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.

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 \$41,944,000 and \$1,682,000, respectively, in 2009 and approximately \$42,887,000 and \$1,798,000, respectively, in 2008.

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>	
	<i>2009</i>	<i>2008</i>
By Board for capital improvements:		
Cash	\$ 33,473,620	\$ 30,609,482
By Board for bond principal and interest payments:		
Cash	2,652,536	2,654,394

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

NOTE E--ASSETS LIMITED AS TO USE - Continued

	<i>June 30,</i>	
	<u>2009</u>	<u>2008</u>
By donors:		
Cash	622,882	817,415
<b>ASSETS LIMITED AS TO USE</b>	<b>\$ 36,749,038</b>	<b>\$ 34,081,291</b>

Balances consist of bank deposits at June 30, 2009 and 2008. 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.

All cash assets limited as to use at June 30, 2009 and 2008 are 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.

NOTE F--PROPERTY AND EQUIPMENT

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

	<i>Balance at June 30, 2008</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance at June 30, 2009</i>
Land	\$ 6,513,813	\$ -	\$ -	\$ 6,513,813
Land improvements	2,226,518	-	-	2,226,518
Building and fixed equipment	106,566,266	12,373,971	-	118,940,237
Equipment	55,683,869	3,358,073	(46,300)	58,995,642
Equipment under capitalized leases	8,664,189	2,741,787	-	11,405,976
	<u>179,654,655</u>	<u>18,473,831</u>	<u>(46,300)</u>	<u>198,082,186</u>
Less: allowance for depreciation and amortization:				
Land improvements	1,701,406	137,682	-	1,839,088
Building and fixed equipment	23,872,796	3,424,620	-	27,297,416

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

NOTE F--PROPERTY AND EQUIPMENT - Continued

	<i>Balance at June 30, 2008</i>	<i>Additions/ Transfers</i>	<i>Retirements</i>	<i>Balance at June 30, 2009</i>
Equipment	37,958,749	4,959,536	(32,368)	42,885,917
Equipment under capitalized leases	6,284,322	691,205	-	6,975,527
Total accumulated depreciation and amortization	69,817,273	9,213,043	(32,368)	78,997,948
	109,837,382	9,260,788	(13,932)	119,084,238
Construction in progress, net	6,526,127	(5,655,758)	(571,439)	298,930
	<b>\$ 116,363,509</b>	<b>\$ 3,605,030</b>	<b>\$ (585,371)</b>	<b>\$ 119,383,168</b>

	<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
	<b>\$ 108,862,043</b>	<b>\$ 7,527,122</b>	<b>\$ (25,656)</b>	<b>\$ 116,363,509</b>

Construction in progress at June 30, 2009 consists primarily of construction on a new sleep center, as well as continuing construction on a surgery suite. Estimated costs to complete these projects amount to approximately \$621,000 at June 30, 2009.

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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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 Medical Center transferred certain property and equipment to the joint venture in 2006 as a part of its initial investment of \$1,850,000. Prior to June 1, 2009, the Medical Center provided various administrative and other services and personnel to the Surgery Center. Other operating revenue for the years ended June 30, 2009 and 2008 includes \$2,015,232 and \$2,322,278 for the use of Medical Center personnel and administrative and other services provided, and other receivables at June 30, 2009 and 2008 includes \$1,288,925 and \$1,545,408 due from the Surgery Center. During 2007, the amount due from the Surgery Center was restructured as a note receivable with required monthly payments of \$11,253, including interest at 5%, through 2022. Effective June 1, 2009, the Medical Center sold 27% of its interest in the Surgery Center. Thus, the Medical Center's ownership interest decreased from approximately 75% as of June 30, 2008 to approximately 55% as of June 30, 2009. As part of this sale agreement, the Employee Leasing Agreement and Administrative Services Agreement between the Medical Center and the Surgery Center were terminated. Condensed financial information for the Surgery Center as of and for the years ended June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Assets	\$ 1,941,563	\$ 2,162,455
Liabilities	\$ 1,681,114	\$ 1,890,116
Member's equity	260,449	272,339
	<u>\$ 1,941,563</u>	<u>\$ 2,162,455</u>

Liabilities at June 30, 2009 and 2008 include \$250,000 and \$300,000, 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 and net income/loss of WSTCH is to be divided equally. The Medical Center contributed \$1,982 and \$40,000 to the joint venture in 2009 and 2008, respectively. The Medical Center recognized losses totaling \$31,168 for the year ended June 30, 2009 based on the Medical Center's ownership interest. The Medical Center provides administrative and other services and personnel to WSTCH.

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE G--INVESTMENT IN JOINT VENTURES - Continued

In July 2008, the Medical Center entered into a joint venture with Saint Thomas Network to own and operate Williamson Saint Thomas Medical Group, LLC (WSTMG) which began operations during the year ended June 30, 2009. The Medical Center owns 80% and Saint Thomas Network owns 20% of WSTMG and net income/loss of WSTMG is to be allocated based on these ownership interests. The Medical Center contributed \$343,995 to the joint venture in 2009. The Medical Center recognized losses totaling \$315,380 for the year ended June 30, 2009 based on the Medical Center's ownership interest. The Medical Center provides administrative and other services and personnel to WSTMG.

Other operating revenue for the years ended June 30, 2009 and 2008 includes \$360,386 and \$123,593, respectively, for administrative and other services and personnel provided to both WSTCH and WSTMG.

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 6.0% and 6.6% at June 30, 2009 and 2008, respectively. The Medical Center's equity in S.H.S. was approximately \$614,600 and \$698,900 at June 30, 2009 and 2008, respectively. Equity earnings are distributed based upon tons of laundry processed by S.H.S.

The Medical Center paid S.H.S. approximately \$665,000 and \$657,000 for laundry services for 2009 and 2008, 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 unrestricted donations to the Medical Center of \$1,943,629 and \$1,845,792 in 2009 and 2008, 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 \$1,225,000 and \$1,517,000 at June 30, 2009 and 2008, respectively.

NOTE I--BONDS AND NOTES PAYABLE

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

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

**NOTE I--BONDS AND NOTES PAYABLE - Continued**

	<i>Balance at June 30, 2008</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2009</i>	<i>Amounts Due Within One Year</i>
Hospital Revenue and Tax Bonds Series 2004B	\$ 13,425,000	\$ -	\$ 600,000	\$ 12,825,000	\$ 610,000
Hospital Revenue and Tax Bonds Series 2004A	12,880,000	-	580,000	12,300,000	600,000
Hospital Revenue and Tax Refunding Bonds, Series 2008	7,100,000	-	1,690,000	5,410,000	1,750,000
2.41% Note payable to bank (LIBOR + 1.75%)	8,333,333	-	500,000	7,833,333	500,000
4.78% Equipment loan	440,249	-	259,935	180,314	180,314
4.31% Note payable to bank	4,727,852	2,770,983	144,457	7,354,378	499,922
0.97% Note payable to bank (LIBOR + .65%)	700,996	-	247,410	453,586	247,410
0.97% Note payable to bank (LIBOR + .65%)	-	634,777	52,899	581,878	211,592
4.50% Note payable to bank	-	1,961,832	52,449	1,909,383	160,893
1.67% Note payable to bank (LIBOR + 1.35%)	-	1,184,339	178,908	1,005,431	306,700
	<u>\$ 47,607,430</u>	<u>\$ 6,551,931</u>	<u>\$ 4,306,058</u>	<u>\$ 49,853,303</u>	<u>\$ 5,066,831</u>

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

**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>
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)	-	-
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>

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

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE I--BONDS AND NOTES PAYABLE - Continued

for a multi-phase facility expansion and renovation project, which extended over several years and was substantially completed in 2007. The remaining Series 2004B Bonds bear interest rates ranging from 3.25% 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 3.875% 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 3.0% 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, 2009.

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

**NOTE I--BONDS AND NOTES PAYABLE - Continued**

The Medical Center also issues notes payable to finance certain property and equipment additions. The 2.41% note payable to bank represents amounts drawn under a \$10,000,000 line of credit, which converted to a term loan on March 1, 2005, with monthly principal and interest payments based on a 20 year amortization, but maturing in March 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 0.97% note payable to bank bear interest at a variable rate based on the bank's index rate (LIBOR) plus .65% and are secured by equipment and ambulances, respectively. The 4.31% note payable to bank represents amounts drawn under a \$7,500,000 construction loan, which converted to a term loan on December 1, 2008, with monthly principal and interest payments based on a 15 year amortization, with all outstanding principal and interest due November 2013. This loan is secured by security interests in accounts receivable, excluding Medicare payments. The 4.5% note payable to bank is payable in monthly amounts of principal and interest of \$20,390 through February 2019 and is secured by the Medical Center's deposit accounts and security interests in accounts receivable, excluding Medicare payments. The 1.67% note payable to bank bears interest at a variable rate based on the bank's index rate (LIBOR) plus 1.35% and is unsecured.

The debt service requirements at June 30, 2009 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>
2010	\$	5,066,831	\$ 1,878,240
2011		4,937,808	1,728,773
2012		4,796,365	1,577,692
2013		2,614,689	1,387,522
2014		7,447,720	1,293,482
2015-2019		14,184,890	3,710,978
2020-2024		9,755,000	1,609,466
2025		1,050,000	45,938
Total	\$	49,853,303	\$ 13,232,091

During 2009 and 2008, the Medical Center capitalized interest expense on construction projects totalling approximately \$149,000 and \$48,000, respectively.

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

**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, 2009 are as follows:

<i>Year Ending June 30,</i>	<i>Capital Leases</i>	<i>Operating Leases</i>
2010	\$ 1,006,868	\$ 2,461,213
2011	972,462	1,474,597
2012	475,848	614,800
2013	-	518,060
2014	-	529,101
Total future minimum lease payments	2,455,178	<u>\$ 5,597,771</u>
Less amounts representing interest of 3.86%-7.88%	<u>(111,176)</u>	
Present value of net minimum lease payments	<u>\$ 2,344,002</u>	

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

<i>Balance at June 30, 2008</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2009</i>	<i>Amounts Due Within One Year</i>
\$ 74,538	\$ 2,741,787	\$ (472,323)	\$ 2,344,002	\$ 930,389

<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

The Medical Center generates rental income primarily from operating leases of three medical office buildings. Rental revenue was \$2,926,928 and \$2,682,467 in 2009 and 2008, respectively, and is included in other revenue.

Future minimum rental revenue under noncancellable leases, including a lease with the Surgery Center currently for \$61,754 per month through September 2015, at June 30, 2009 is as follows:

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE J--LEASES - Continued

<u>Year Ending June 30,</u>	
2010	\$ 2,487,348
2011	2,270,410
2012	2,064,135
2013	2,105,417
2014	2,147,527
Thereafter	<u>5,972,299</u>
Total	<u>\$ 17,047,136</u>

Future minimum rental payments generally include minor annual increases for inflation. Rental income in excess of rent expense was \$1,122,276 and \$870,082 for 2009 and 2008, 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 2009 and 2008 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 \$2,167,000 and \$1,992,000 in 2009 and 2008, 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, 2009 and 2008 consist of various mutual fund and fixed income investments.

NOTE M--OTHER RECEIVABLES

Other current and long-term receivables at June 30, 2009 and 2008 include \$404,077 and \$429,930, respectively, in receivables from certain physicians which were made as part of the

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE M--OTHER RECEIVABLES - Continued

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 five fiscal years, no settlements of malpractice claims have exceeded insurance coverage limits.

There are known incidents occurring through June 30, 2009 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 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

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE N--COMMITMENTS AND CONTINGENCIES - Continued

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 \$9,010,000 and \$8,072,000 for the years ended June 30, 2009 and 2008, respectively.

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 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.

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

*Notes to Combined Financial Statements - Continued*

*Years Ended June 30, 2009 and 2008*

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NOTE O--FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

*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, 2009 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, 2009, which collectively comprise the Medical Center's basic financial statements and have issued our report thereon dated September 11, 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 Medical Center'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 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entities financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal

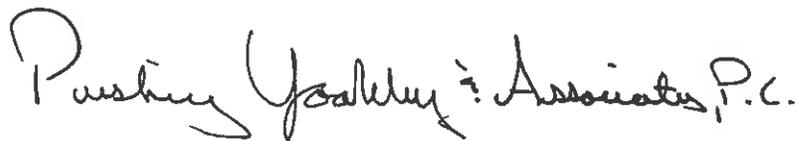
control over financial reporting (2009-01 and 2009-02). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Medical Center's responses and, accordingly, we express no opinion on them.

#### 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.



Knoxville, Tennessee  
September 11, 2009

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

*Schedule of Findings and Responses*

*Years Ended June 30, 2009*

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**FINDINGS - INTERNAL CONTROL OVER FINANCIAL REPORTING**

**2009-01** *Patient Accounts Receivable and Related Allowances for Contractual Adjustments and Uncollectible Accounts:*

During our audit in the prior fiscal year (fiscal year ended June 30, 2008), we observed certain negative trends related to financial ratios and other analytical analyses of patient accounts receivable and the related allowances, which we noted in our letter dated September 12, 2008. During the current year's audit (fiscal year ended June 30, 2009), we continued to see similar negative trends. We also determined that certain reserve percentages related to "self-pay" patient accounts receivable had been reduced significantly from the reserve percentages utilized in the prior year. These reserve percentages are used by management to formulate an estimate of the allowance for uncollectible patient accounts receivable. The "self-pay" reserve percentages utilized by management have historically been estimates in nature, and thus did not necessarily represent the average historical write-off percentages on "self-pay" accounts. However, in the past the "self-pay" reserve percentages gave increasing recognition to the likelihood of accounts becoming uncollectible based on their age. We understand that the Medical Center utilizes a third party collection agency in an effort to establish a contractual payment plan with "self-pay" accounts. Management indicated that the Medical Center's self pay reserves may be lower as of June 30, 2009 because, during 2009, there was an effort to write off many of the "older" self-pay accounts receivable, so that most of the remaining "self-pay" accounts receivable are established under a contractual payment plan. However, based on our testing, we found that there were a substantial number of "self-pay" accounts which were not established under a contractual payment plan as of June 30, 2009. The likelihood of collection is therefore less, and indeed we noted additional significant write offs of these accounts subsequent to June 30, 2009. We presented the financial management team with our analyses of the potential for an understatement of the allowance for uncollectible accounts as of June 30, 2009. We requested that the financial management team further analyze "self-pay" patient accounts receivable and the related allowance for uncollectible accounts. The financial management team prepared an analysis of "self-pay" accounts receivable which estimated that the allowance for uncollectible accounts was understated by approximately \$1,000,000 as of June 30, 2009. Management posted an adjusting journal entry to increase the allowance for uncollectible accounts and the provision for bad debts by this amount for the year ended June 30, 2009. We concur with the adjustment posted by management.

On a going forward basis, we recommend that management base the reserve percentages for "self-pay" accounts on the actual historical write-offs for these types

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

*Schedule of Findings and Responses - Continued*

*Years Ended June 30, 2009*

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of accounts. In addition, we believe that a strong system of internal controls surrounding these estimates and judgments should include a retrospective review of the prior period estimates, by evaluating the adequacy of prior period estimates through comparison to actual results. Should actual results vary from estimates, management should determine the reason for the variance and adjust future estimates accordingly.

We also observed during our audit procedures that certain reserve percentages utilized by management to estimate reserves for contractual adjustments had not been updated appropriately based on system reports of historical contractual adjustments. Management typically generates a system query report of historical contractual adjustments and utilizes these percentages, categorized by insurance payor, to estimate allowances for contractual adjustments. Management indicated that this error in updating the reserve percentages was an accidental oversight. The effect of this error was not specifically adjusted but was considered in the overall analysis of the adequacy of accounts receivable allowances. We recommend that the Medical Center implement an additional internal control to require a secondary detailed review of the analysis prepared by management to estimate the allowances for contractual adjustments and uncollectible accounts. A secondary review process should mitigate the risk of unintentional misstatements of the estimate of the allowance for contractual adjustments

*Management's Response - Management will periodically review recent bad debt and contractual write offs in order to determine the collectability of accounts receivable. Additionally, management will monitor and report trends in financial ratios and other analytical analysis of patient accounts receivable and related allowances. Management is considering implementing a secondary review to mitigate the risk of unintentional misstatements.*

2009-02 *Year End Financial Close Process:*

Several supporting schedules were not complete, or required revision by the accounting department, after the start of our audit fieldwork, July 27, 2009. These supporting schedules are needed to prepare the financial statements and the related footnote disclosures. As an example, the schedule of fixed asset activity did not reconcile to the general ledger and we experienced a significant delay in getting the schedule corrected by the accounting department. We recommend that management redesign certain internal controls over financial reporting so that they are performed timely and so that secondary, detailed periodic reviews are performed to ensure accuracy.

*Management's Response - Management will strive to complete year end schedules prior to the start of audit fieldwork.*