**Williamson County Hospital District**
**BOARD OF TRUSTEES MEETING**

(Solely for the use of the Board of Trustees and Management)

September 13, 2011

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

# Report to the Board of Trustees

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LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

**To the Board of Trustees**
**Williamson County Hospital District**
**Franklin, Tennessee:**

**We have audited the combined 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, for the year ended June 30, 2011, and have issued our report thereon dated September 13, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 18, 2011. Professional standards also require that we communicate to you the following information related to our audit.**

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

**Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Medical Center are described in Note 2 to the combined financial statements. We noted no transactions entered into by the Medical Center during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the combined financial statements in a different period than when the transaction occurred.**

**In August 2010, accounting standards relating to the presentation of insurance claims and related insurance recoveries for health care entities were amended to require the entity to recognize an insurance receivable at the same time that it recognizes the liability, measured on the same basis of the liability. These amendments are effective for financial statements for fiscal years beginning after December 15, 2010. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2012. The Medical Center will need to consider the impact on the combined financial statements of adopting these accounting standards.**

**In August 2010, accounting standards relating to the disclosure of charity care for health care entities were amended to require the entity to measure charity care based on the direct and indirect costs of providing the charity care. These amendments are effective for financial statements for fiscal years beginning after December 15, 2010. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2012. The Medical Center will need to consider the impact of the combined financial statements of adopting these accounting standards.**

**Accounting estimates are an integral part of the combined financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combined financial statements and because of the possibility that future events affecting them may differ significantly from those expected.**

**Management's estimates of the depreciable lives of property and equipment, allowance for bad debts, contractual adjustments and estimated third-party settlements are based, among other factors, on historical information, trends of delinquencies and charge-offs, and cost report settlements. In addition, management's estimates of incurred but not reported claims (IBNR) for self-insurance is based, among other factors, on historical claims data, utilization statistics, and other related data. We evaluated the key factors and assumptions used to develop the depreciable lives of property and equipment, allowance for bad debts, contractual adjustments, third-party settlements, and IBNR and had discussions with management in determining that the balances are reasonable in relation to the combined financial statements of the Medical Center taken as a whole.**

***Difficulties Encountered in Performing the Audit***

**We encountered no difficulties in dealing with management in performing and completing our audit.**

***Corrected and Uncorrected Misstatements***

**Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule ("Attachment A") summarizes uncorrected misstatements of the combined financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the combined financial statements taken as a whole. Additionally, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the combined financial statements taken as a whole.**

***Disagreements with Management***

**For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the combined financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.**

***Management Representations***

**We have requested certain representations from management that are included in the management representation letter dated September 13, 2011.**

***Management Consultations with Other Independent Accountants***

**In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Medical Center's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.**

***Other Matters***

**We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Medical Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.**

**Independence**

**We are not aware of any relationships between our firm and the Medical Center that, in our professional judgment, may reasonably be thought to bear on our independence which have occurred during the period from July 1, 2010 through the date of this letter.**

*******

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

Lattimore Black Morgan & Cain, PC

**Brentwood, Tennessee**
**September 13, 2011**

Attachment A

**Williamson County Hospital District**
**Summary of Uncorrected Misstatements**
**June 30, 2011**

| | Impact of Adjustments on Combined Financial Statements - Increase (Decrease) | | | | | |
|---|---|---|---|---|---|---|
| | **Statement of Revenues, Expenses and Changes in Net Assets** | **Statement of Net Assets** | | | | |
| **Description** | Excess of Revenues Over Expenses | Net Assets | Current Assets | Non-Current Assets | Current Liabilities | Non-Current Liabilities |
| **Passed Adjustments:** | | | | | | |
| To reverse effects of prior year passed adjustments | 167,000 | (167,000) | - | - | - | - |
| To adjust the vacation accrual | 111,000 | 80,000 | - | - | (191,000) | - |
| **Total adjustments** | 278,000 | (87,000) | - | - | (191,000) | - |
| **Combined financial statement amounts** | 10,433,000 | 146,461,000 | 45,399,000 | 163,918,000 | 19,040,000 | 43,816,000 |
| **Impact as a percentage of combined financial statement amounts** | 2.7% | -0.1% | N/A | N/A | -1.0% | N/A |

**WILLIAMSON COUNTY HOSPITAL DISTRICT**
**(a component unit of Williamson County)**

**Audited Combined Financial Statements**
**and Other Information**

**June 30, 2011 and 2010**

**(With Independent Auditors' Report Thereon)**

LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

# WILLIAMSON COUNTY HOSPITAL DISTRICT
## (a component unit of Williamson County)

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# INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Williamson County Hospital District
Franklin, Tennessee:

We have audited the accompanying combined statements of net assets 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 June 30, 2011 and 2010, and the related combined statements of revenue, expenses and changes in net assets and cash flows for the years then ended, 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 audit 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 in the circumstances, but not for the purpose of expressing and opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 combined 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, 2011 and 2010, and the changes in their net assets 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 a report dated September 13, 2011 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 2011 audit.

Management's Discussion and Analysis is not a required part of the basic combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 supplementary information. However, we did not audit the information and express no opinion on it.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 13, 2011

## Management's Discussion and Analysis

This section presents management's discussion and analysis of the financial performance of Williamson County Hospital District (Williamson Medical Center) (the Medical Center) for the fiscal years ended June 30, 2009 thru June 30, 2011. 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 statements of net assets, 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 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 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 contradicts GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins.

### NOTEWORTHY FINANCIAL ACTIVITY

- Key measures of patient activity are noted below. Admissions increased 275 or 2.9% from 2010 to 2011. Equivalent patient days which is a method of measuring outpatient activity increased for the same time period by 4,772 or 6.4%. All other measures remained constant or had a slight increase.

| | Year Ended June 30, | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| Admissions | 9,828 | 9,553 | 9,523 |
| Patient Days | 37,740 | 36,466 | 37,255 |
| Length of Stay | 3.8 | 3.8 | 3.9 |
| Equivalent patient days | 79,483 | 74,711 | 79,049 |
| Surgeries | 6,760 | 6,582 | 6,478 |
| Surgery minutes | 837,402 | 841,319 | 799,365 |
| Emergency Room Visits | 35,892 | 35,577 | 35,935 |
| Births | 1,366 | 1,363 | 1,353 |
| Case mix index | 1.20 | 1.20 | 1.19 |

- Payor mix is based on gross charges and as noted on the table below has remained consistent.

| | Year ended June 30, 2011 | 2010 | 2009 |
|---|---|---|---|
| Medicare | 41.4% | 41.3% | 40.1% |
| Managed Care | 9.7% | 8.5% | 10.8% |
| Commercial | 9.5% | 10.2% | 11.3% |
| TennCare | 6.6% | 7.0% | 6.3% |
| Self Pay | 5.1% | 4.7% | 5.1% |
| Workers Comp | 1.0% | 0.7% | 0.0% |
| Blue Cross | 26.7% | 27.0% | 26.4% |
| Disabled | 0.0% | 0.6% | 0.0% |
| | 100.0% | 100.0% | 100.0% |

**BALANCE SHEET**

As of June 30, 2011 the Medical Center's current assets of $45.4 million were sufficient to cover current liabilities of $19 million (current ratio of 2.4 compared to 2.6 in the prior year) The Debt Service Coverage Ratio for June 30, 2011 was at 2.7 compared to 2.5 for June 30, 2010. Days cash on hand (including assets limited as to use) was 171.5 at June 30, 2011 versus 138.9 at June 30, 2010, an increase of 23.5%.

| | June 30, **2011** | **2010** | **2009** |
|---|---|---|---|
| Assets: | | | |
| Current assets | $ 45,398,855 | $ 39,826,763 | $ 34,656,749 |
| Property and equipment, net | 120,613,636 | 112,902,950 | 119,383,168 |
| Non-current assets limited as to use | 42,253,602 | 38,138,144 | 34,096,502 |
| Other non-current assets | 1,050,158 | 1,259,600 | 1,279,178 |
| Total assets | $209,316,251 | $192,127,457 | $189,415,597 |
| Liabilities: | | | |
| Current liabilities | $ 19,039,743 | $ 15,410,324 | $ 15,428,299 |
| Bonds, notes payable and obligations under capital lease (excluding current portion | 43,815,610 | 40,689,318 | 46,200,085 |
| Total liabilities | $ 62,855,353 | $ 56,099,642 | $ 61,628,384 |
| Net assets: | | | |
| Invested in capital assets net of related debt | $ 69,114,337 | $ 66,349,906 | $ 67,185,863 |
| Restricted expendable net assets | 781,188 | 688,465 | 674,123 |
| Unrestricted | 76,565,373 | 68,989,444 | 59,927,227 |
| Total net assets | $146,460,898 | $136,027,815 | $127,787,213 |

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

| | June 30, 2011 | 2010 | 2009 |
|---|---|---|---|
| Operating revenues: | | | |
| Net patient service revenue | $142,570,722 | $139,796,786 | $133,272,572 |
| Other operating revenue | 5,822,077 | 6,820,853 | 8,772,762 |
| Total operating revenues | 148,392,799 | 146,617,639 | 142,045,334 |
| Operating expenses: | | | |
| Salaries, wages and benefits | 74,798,326 | 75,465,461 | 77,114,279 |
| Supplies and other | 53,695,707 | 51,831,691 | 50,715,496 |
| Depreciation and amortization | 9,132,854 | 9,604,146 | 9,238,297 |
| Total operating expenses | 137,626,887 | 136,901,298 | 137,068,072 |
| Operating income | 10,765,912 | 9,716,341 | 4,977,262 |
| Non-operating revenue (expenses) | | | |
| Investment income | 550,931 | 494,305 | 507,056 |
| Interest expense | (2,046,594) | (2,286,824) | (2,170,588) |
| Loss on investment in joint venture | 123,967 | (269,998) | (294,706) |
| Other, net | 855,164 | 438,843 | 380,099 |
| Non-operating revenue (expenses), net | (516,532) | (1,623,674) | (1,578,139) |
| Revenue and gain in excess of expenses and losses | 10,249,380 | 8,092,667 | 3,399,123 |
| Capital grants and contributions | 183,703 | 147,935 | 172,445 |
| Increase in net assets | 10,433,083 | 8,240,602 | 3,571,568 |
| Net assets, beginning of year | 136,027,815 | 127,787,213 | 124,215,645 |
| Net assets, end of year | $146,460,898 | $136,027,815 | $127,787,213 |

- Total operating revenues for 2011 are comprised of net patient service revenue ($143 million) and other operating revenue ($6 million). Net patient service revenue for 2011 represents 34.9% of gross service charges, down from 35.5% of gross charges in 2010. Contractual arrangements with third-party payors, bad debt and charity care account for the difference between gross service charges and net patient service revenue.

- Net patient service revenue for fiscal year 2011 increased by $2.8 million or 2% from the prior year. Improved revenue management converted charges to cash that previously would have been written off as a contractual discount, insurance denial or uncollectible.

- Salaries and wages increased by 1.2 million or 2% over the prior fiscal year. Full Time Equivalents (FTEs) were 1,126 and 1,136 in fiscal years 2010 and 2011, respectively.

- Overall benefit cost decreased 1.9 million or 15% due to a change to Blue Cross as the third party administrator for the hospital's employee health insurance plan.

- Total operating expenses for 2011, including depreciation and amortization of $9.1 million, were $137.6 million. The salaries, wages and benefits expense accounted for 54.3% of the $137.6 million total operating expenses. It should be noted that operating expenses were only slightly higher than the previous year.

- The operating income to total operating revenue margin for fiscal year 2011 was $10.8 million compared to $9.7 million for 2010.

THE MEDICAL CENTER'S CASH FLOWS

Changes in the Medical Center's cash flows are generally consistent with changes in operating income and non-operating 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 2011, the Medical Center had $120.6 million invested in capital assets, net of accumulated depreciation as compare to 112.9 million in 2010. The increase was mainly due to the purchase of two buildings to be utilized for outreach and growth.

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.

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-Operations

WILLIAMSON MEDICAL CENTER BOARD OF TRUSTEES

# WILLIAMSON COUNTY HOSPITAL DISTRICT
## (a component unit of Williamson County)

## Combined Statements of Net Assets

## June 30, 2011

| | | Primary Enterprise | | Component Unit | | Total Reporting Entity |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash | $ | 22,157,369 | $ | - | $ | 22,157,369 |
| Assets limited as to use required for current liabilities | | 2,658,244 | | - | | 2,658,244 |
| Patient accounts receivable, less allowance for uncollectible accounts of $6,608,348 | | 15,457,199 | | - | | 15,457,199 |
| Other receivables | | 649,742 | | - | | 649,742 |
| Inventories | | 3,258,531 | | - | | 3,258,531 |
| Prepaid expenses | | 1,217,770 | | - | | 1,217,770 |
| Total current assets | | 45,398,855 | | - | | 45,398,855 |
| Assets limited as to use, excluding assets required for current liabilities: | | | | | | |
| By Board for capital improvements | | 41,520,854 | | - | | 41,520,854 |
| By Board for bond principal and interest payments | | 2,658,244 | | - | | 2,658,244 |
| By donors | | - | | 732,748 | | 732,748 |
| Total assets limited as to use | | 44,179,098 | | 732,748 | | 44,911,846 |
| Less: amount classified as current | | (2,658,244) | | - | | (2,658,244) |
| | | 41,520,854 | | 732,748 | | 42,253,602 |
| Property and equipment, net | | 120,613,636 | | - | | 120,613,636 |
| Other assets: | | | | | | |
| Other receivables, less current portion | | 197,715 | | - | | 197,715 |
| Investment in joint ventures | | 690,036 | | - | | 690,036 |
| Bond issuance costs, net of accumulated amortization | | 162,407 | | - | | 162,407 |
| Total other assets | | 1,050,158 | | - | | 1,050,158 |
| Total assets | $ | 208,583,503 | $ | 732,748 | $ | 209,316,251 |

See accompanying notes to the combined financial statements.

# WILLIAMSON COUNTY HOSPITAL DISTRICT
## (a component unit of Williamson County)

## Combined Statements of Net Assets, Continued

## June 30, 2011

| | Primary Enterprise | Component Unit | Total Reporting Entity |
|---|---|---|---|
| **Liabilities and Net Assets** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 3,184,038 | $ - | $ 3,184,038 |
| Accrued payroll, compensated absences and payroll related liabilities | 5,560,529 | - | 5,560,529 |
| Accrued expenses and other liabilities | 1,836,757 | - | 1,836,757 |
| Accrued interest expense | 193,901 | - | 193,901 |
| Current portion of long-term debt | 6,437,345 | - | 6,437,345 |
| Current portion of capital lease obligations | 1,246,344 | - | 1,246,344 |
| Estimated third-party payor settlements | 580,829 | - | 580,829 |
| Total current liabilities | 19,039,743 | - | 19,039,743 |
| Long-term debt, excluding current portion | 42,825,885 | - | 42,825,885 |
| Capital lease obligations, excluding current portion | 989,725 | - | 989,725 |
| Total liabilities | 62,855,353 | - | 62,855,353 |
| Net assets: | | | |
| Unrestricted: | | | |
| Invested in capital assets, net of related debt | 69,114,337 | - | 69,114,337 |
| Unrestricted net assets | 76,565,373 | - | 76,565,373 |
| Total unrestricted net assets | 145,679,710 | - | 145,679,710 |
| Restricted | 48,440 | 732,748 | 781,188 |
| Total net assets | 145,728,150 | 732,748 | 146,460,898 |
| Total liabilities and net assets | $ 208,583,503 | $ 732,748 | $ 209,316,251 |

See accompanying notes to the combined financial statements.

# WILLIAMSON COUNTY HOSPITAL DISTRICT
## (a component unit of Williamson County)

## Combined Statements of Net Assets

## June 30, 2010

| | Primary Enterprise | Component Unit | Total Reporting Entity |
|---|---|---|---|
| Assets | | | |
| Current assets: | | | |
| Cash | $ 15,743,681 | $ - | $ 15,743,681 |
| Assets limited as to use required for current liabilities | 2,650,176 | - | 2,650,176 |
| Patient accounts receivable, less allowance for uncollectible accounts of $7,528,326 | 17,284,170 | - | 17,284,170 |
| Other receivables | 597,534 | - | 597,534 |
| Inventories | 3,220,347 | - | 3,220,347 |
| Prepaid expenses | 330,855 | - | 330,855 |
| Total current assets | 39,826,763 | - | 39,826,763 |
| Assets limited as to use, excluding assets required for current liabilities: | | | |
| By Board for capital improvements | 37,498,546 | - | 37,498,546 |
| By Board for bond principal and interest payments | 2,650,176 | - | 2,650,176 |
| By donors | - | 639,598 | 639,598 |
| Total assets limited as to use | 40,148,722 | 639,598 | 40,788,320 |
| Less: amount classified as current | (2,650,176) | - | (2,650,176) |
| | 37,498,546 | 639,598 | 38,138,144 |
| Property and equipment, net | 112,902,950 | - | 112,902,950 |
| Other assets: | | | |
| Other receivables, less current portion | 419,731 | - | 419,731 |
| Investment in joint ventures | 637,274 | - | 637,274 |
| Bond issuance costs, net of accumulated amortization | 202,595 | - | 202,595 |
| Total other assets | 1,259,600 | - | 1,259,600 |
| Total assets | $ 191,487,859 | $ 639,598 | $ 192,127,457 |

See accompanying notes to the combined financial statements.

## Combined Statements of Net Assets, Continued

### June 30, 2010

| | Primary Enterprise | Component Unit | Total Reporting Entity |
|---|---|---|---|
| **Liabilities and Net Assets** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 2,436,607 | $ - | $ 2,436,607 |
| Accrued payroll, compensated absences and payroll related liabilities | 4,814,180 | - | 4,814,180 |
| Accrued expenses and other liabilities | 1,678,172 | - | 1,678,172 |
| Accrued interest expense | 193,901 | - | 193,901 |
| Current portion of long-term debt | 4,822,846 | - | 4,822,846 |
| Current portion of capital lease obligations | 1,040,880 | - | 1,040,880 |
| Estimated third-party payor settlements | 423,738 | - | 423,738 |
| Total current liabilities | 15,410,324 | - | 15,410,324 |
| Long-term debt, excluding current portion | 40,139,114 | - | 40,139,114 |
| Capital lease obligations, excluding current portion | 550,204 | - | 550,204 |
| Total liabilities | 56,099,642 | - | 56,099,642 |
| Net assets: | | | |
| Unrestricted: | | | |
| Invested in capital assets, net of related debt | 66,349,906 | - | 66,349,906 |
| Unrestricted net assets | 68,989,444 | - | 68,989,444 |
| Total unrestricted net assets | 135,339,350 | - | 135,339,350 |
| Restricted | 48,867 | 639,598 | 688,465 |
| Total net assets | 135,388,217 | 639,598 | 136,027,815 |
| Total liabilities and net assets | $ 191,487,859 | $ 639,598 | $ 192,127,457 |

See accompanying notes to the combined financial statements.

# WILLIAMSON COUNTY HOSPITAL DISTRICT
## (a component unit of Williamson County)

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

## Year ended June 30, 2011

| | Primary Enterprise | Component Unit | Total Reporting Entity |
|---|---|---|---|
| Operating revenue: | | | |
| Net patient service revenue, net of provision for bad debts of $10,570,824 | $ 142,570,722 | $ - | $ 142,570,722 |
| Other revenue | 5,822,077 | - | 5,822,077 |
| Total operating revenue | 148,392,799 | - | 148,392,799 |
| Operating expenses: | | | |
| Salaries and wages | 63,916,168 | - | 63,916,168 |
| Employee benefits | 10,882,158 | - | 10,882,158 |
| Supplies | 30,884,677 | - | 30,884,677 |
| Purchased services | 5,865,203 | 590 | 5,865,793 |
| Repairs and maintenance | 3,503,046 | - | 3,503,046 |
| Leases and rentals | 3,278,154 | - | 3,278,154 |
| Insurance | 991,727 | - | 991,727 |
| Depreciation and amortization | 9,132,854 | - | 9,132,854 |
| Other expenses | 9,060,560 | 111,750 | 9,172,310 |
| Total operating expenses | 137,514,547 | 112,340 | 137,626,887 |
| Operating income (loss) | 10,878,252 | (112,340) | 10,765,912 |
| Nonoperating income (expenses): | | | |
| Investment income | 529,144 | 21,787 | 550,931 |
| Interest expense | (2,046,594) | - | (2,046,594) |
| Equity in earnings of joint ventures | 123,967 | - | 123,967 |
| Other, net | 855,164 | - | 855,164 |
| Net nonoperating income (expenses) | (538,319) | 21,787 | (516,532) |
| Excess (deficit) of revenues over expenses before capital grants and contributions | 10,339,933 | (90,553) | 10,249,380 |
| Capital grants and contributions | - | 183,703 | 183,703 |
| Excess of revenues over expenses | 10,339,933 | 93,150 | 10,433,083 |
| Net assets at beginning of year | 135,388,217 | 639,598 | 136,027,815 |
| Net assets at end of year | $ 145,728,150 | $ 732,748 | $ 146,460,898 |

See accompanying notes to the combined financial statements.

## WILLIAMSON COUNTY HOSPITAL DISTRICT
## (a component unit of Williamson County)

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

### Year ended June 30, 2010

| | Primary Enterprise | Component Unit | Total Reporting Entity |
|---|---|---|---|
| **Operating revenue:** | | | |
| Net patient service revenue, net of provision for bad debts of $12,070,649 | $ 139,796,786 | $ - | $ 139,796,786 |
| Other revenue | 6,820,853 | - | 6,820,853 |
| Total operating revenue | 146,617,639 | - | 146,617,639 |
| **Operating expenses:** | | | |
| Salaries and wages | 62,681,518 | - | 62,681,518 |
| Employee benefits | 12,783,943 | - | 12,783,943 |
| Supplies | 28,881,578 | - | 28,881,578 |
| Purchased services | 6,538,249 | 7,930 | 6,546,179 |
| Repairs and maintenance | 3,210,992 | - | 3,210,992 |
| Leases and rentals | 3,368,040 | - | 3,368,040 |
| Insurance | 1,249,336 | - | 1,249,336 |
| Depreciation and amortization | 9,604,146 | - | 9,604,146 |
| Other expenses | 8,481,091 | 94,475 | 8,575,566 |
| Total operating expenses | 136,798,893 | 102,405 | 136,901,298 |
| Operating income (loss) | 9,818,746 | (102,405) | 9,716,341 |
| **Nonoperating income (expenses):** | | | |
| Investment income | 486,966 | 7,339 | 494,305 |
| Interest expense | (2,286,824) | - | (2,286,824) |
| Equity in earnings (losses) of joint ventures | (269,998) | - | (269,998) |
| Other, net | 438,843 | - | 438,843 |
| Net nonoperating income (expenses) | (1,631,013) | 7,339 | (1,623,674) |
| Excess (deficit) of revenues over expenses before capital grants and contributions | 8,187,733 | (95,066) | 8,092,667 |
| Capital grants and contributions | - | 147,935 | 147,935 |
| Excess of revenues over expenses | 8,187,733 | 52,869 | 8,240,602 |
| Net assets at beginning of year | 127,200,484 | 586,729 | 127,787,213 |
| Net assets at end of year | $ 135,388,217 | $ 639,598 | $ 136,027,815 |

See accompanying notes to the combined financial statements.

# WILLIAMSON COUNTY HOSPITAL DISTRICT
## (a component unit of Williamson County)

## Combined Statements of Cash Flows

## Year ended June 30, 2011

| | Primary Enterprise | Component Unit | Total Reporting Entity |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Receipts from and on behalf of patients | $ 144,554,784 | $ - | $ 144,554,784 |
| Receipts from other operations | 1,442,621 | 183,703 | 1,626,324 |
| Rent receipts | 2,605,640 | - | 2,605,640 |
| Payments to vendors for supplies and other | (53,355,088) | (112,340) | (53,467,428) |
| Payments to employees | (74,051,977) | - | (74,051,977) |
| Net cash provided by operating activities | 21,195,980 | 71,363 | 21,267,343 |
| **Cash flows from noncapital financing activities:** | | | |
| Contributions received from Williamson County | 1,943,624 | - | 1,943,624 |
| Net cash provided by noncapital financing activities | 1,943,624 | - | 1,943,624 |
| **Cash flows from capital and related financing activities:** | | | |
| Capital expenditures, net | (14,690,433) | - | (14,690,433) |
| Principal paid on long-term debt | (4,848,730) | - | (4,848,730) |
| Proceeds from the issuance of debt | 9,150,000 | - | 9,150,000 |
| Repayment of capital lease obligations | (1,715,296) | - | (1,715,296) |
| Interest paid on long-term debt | (2,046,594) | - | (2,046,594) |
| Net cash used in capital and related financing activities | (14,151,053) | - | (14,151,053) |
| **Cash flows from investing activities:** | | | |
| Distributions from joint ventures | 71,205 | - | 71,205 |
| Investment income | 529,144 | 21,787 | 550,931 |
| Other, net | 855,164 | - | 855,164 |
| Net cash provided by investing activities | 1,455,513 | 21,787 | 1,477,300 |
| Net increase in cash and cash equivalents | 10,444,064 | 93,150 | 10,537,214 |
| Cash and cash equivalents at beginning of year | 55,892,403 | 639,598 | 56,532,001 |
| Cash and cash equivalents at end of year | $ 66,336,467 | $ 732,748 | $ 67,069,215 |

See accompanying notes to the combined financial statements.

# WILLIAMSON COUNTY HOSPITAL DISTRICT
## (a component unit of Williamson County)

## Combined Statements of Cash Flows, Continued

## Year ended June 30, 2011

| | Primary Enterprise | Component Unit | Total Reporting Entity |
|---|---|---|---|
| **Reconciliation of cash and cash equivalents to the balance sheets:** | | | |
| Cash | $ 22,157,369 | $ - | $ 22,157,369 |
| Assets limited as to use by Board for capital improvements and bond principal and interest payments | 44,179,098 | - | 44,179,098 |
| Cash assets limited as to use by donors | - | 732,748 | 732,748 |
| Cash and cash equivalents | $ 66,336,467 | $ 732,748 | $ 67,069,215 |
| **Reconciliation of operating income (loss) to net cash provided by operating activities:** | | | |
| Operating income (loss) | $ 10,878,252 | $ (112,340) | $ 10,765,912 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 9,132,854 | - | 9,132,854 |
| Provision for bad debts | 10,570,824 | - | 10,570,824 |
| Contributions from Williamson County | (1,943,624) | - | (1,943,624) |
| Capital grants and contributions | - | 183,703 | 183,703 |
| (Increase) decrease in operating assets: | | | |
| Patient accounts receivable, net | (8,743,853) | - | (8,743,853) |
| Other receivables | 169,808 | - | 169,808 |
| Inventories | (38,184) | - | (38,184) |
| Prepaid expenses | (639,553) | - | (639,553) |
| Increase (decrease) in operating liabilities: | | | |
| Accounts payable | 747,431 | - | 747,431 |
| Accrued payroll, compensated absences and payroll related liabilities | 746,349 | - | 746,349 |
| Accrued expenses and other liabilities | 158,585 | - | 158,585 |
| Estimated third-party payor settlements | 157,091 | - | 157,091 |
| Total adjustments | 10,317,728 | 183,703 | 10,501,431 |
| **Net cash provided by operating activities** | $ 21,195,980 | $ 71,363 | $ 21,267,343 |
| **Supplemental schedule of noncash investing, capital and financing activities:** | | | |
| Capital lease obligations for equipment ($247,362 of prepaid expenses and $2,112,919 in property and equipment) | $ 2,360,281 | $ - | $ 2,360,281 |

See accompanying notes to the combined financial statements.

# WILLIAMSON COUNTY HOSPITAL DISTRICT
## (a component unit of Williamson County)

## Combined Statements of Cash Flows

## Year ended June 30, 2010

| | Primary Enterprise | Component Unit | Total Reporting Entity |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Receipts from and on behalf of patients | $ 145,071,713 | $ - | $ 145,071,713 |
| Receipts from other operations | 2,626,284 | 147,935 | 2,774,219 |
| Rent receipts | 2,910,476 | - | 2,910,476 |
| Payments to vendors for supplies and other | (53,365,246) | (93,396) | (53,458,642) |
| Payments to employees | (75,426,065) | - | (75,426,065) |
| Net cash provided by operating activities | 21,817,162 | 54,539 | 21,871,701 |
| Cash flows from noncapital financing activities: | | | |
| Contributions received from Williamson County | 2,172,706 | - | 2,172,706 |
| Net cash provided by noncapital financing activities | 2,172,706 | - | 2,172,706 |
| Cash flows from capital and related financing activities: | | | |
| Capital expenditures, net | (2,550,285) | - | (2,550,285) |
| Principal paid on long-term debt | (4,891,343) | - | (4,891,343) |
| Repayment of capital lease obligations | (1,302,555) | - | (1,302,555) |
| Interest paid on long-term debt | (2,302,754) | - | (2,302,754) |
| Net cash used in capital and related financing activities | (11,046,937) | - | (11,046,937) |
| Cash flows from investing activities: | | | |
| Contributions to joint ventures | (189,989) | - | (189,989) |
| Proceeds from sale of interest in joint ventures | 79,999 | - | 79,999 |
| Investment income | 486,966 | 7,339 | 494,305 |
| Other, net | 438,843 | - | 438,843 |
| Net cash provided by investing activities | 815,819 | 7,339 | 823,158 |
| Net increase in cash and cash equivalents | 13,758,750 | 61,878 | 13,820,628 |
| Cash and cash equivalents at beginning of year | 42,133,653 | 577,720 | 42,711,373 |
| Cash and cash equivalents at end of year | $ 55,892,403 | $ 639,598 | $ 56,532,001 |

See accompanying notes to the combined financial statements.

# WILLIAMSON COUNTY HOSPITAL DISTRICT
## (a component unit of Williamson County)

## Combined Statements of Cash Flows, Continued

## Year ended June 30, 2010

| | Primary Enterprise | Component Unit | Total Reporting Entity |
|---|---|---|---|
| **Reconciliation of cash and cash equivalents to the balance sheets:** | | | |
| Cash | $ 15,743,681 | $ - | $ 15,743,681 |
| Assets limited as to use by Board for capital improvements and bond principal and interest payments | 40,148,722 | - | 40,148,722 |
| Cash assets limited as to use by donors | - | 639,598 | 639,598 |
| Cash and cash equivalents | $ 55,892,403 | $ 639,598 | $ 56,532,001 |
| **Reconciliation of operating income (loss) to net cash provided by operating activities:** | | | |
| Operating income (loss) | $ 9,818,746 | $ (102,405) | $ 9,716,341 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 9,604,146 | - | 9,604,146 |
| Provision for bad debts | 12,070,649 | - | 12,070,649 |
| Contributions from Williamson County | (2,172,706) | - | (2,172,706) |
| Capital grants and contributions | - | 147,935 | 147,935 |
| (Increase) decrease in operating assets: | | | |
| Patient accounts receivable, net | (6,887,888) | - | (6,887,888) |
| Other receivables | 888,613 | 12,544 | 901,157 |
| Inventories | (1,542,686) | - | (1,542,686) |
| Prepaid expenses | (96,696) | - | (96,696) |
| Increase (decrease) in operating liabilities: | | | |
| Accounts payable | 403,334 | (3,535) | 399,799 |
| Accrued payroll, compensated absences and payroll related liabilities | 39,396 | - | 39,396 |
| Accrued expenses and other liabilities | (399,912) | - | (399,912) |
| Estimated third-party payor settlements | 92,166 | - | 92,166 |
| Total adjustments | 11,998,416 | 156,944 | 12,155,360 |
| Net cash provided by operating activities | $ 21,817,162 | $ 54,539 | $ 21,871,701 |
| **Supplemental schedule of noncash investing, capital and financing activities:** | | | |
| Capital lease obligations for equipment | $ 549,637 | $ - | $ 549,637 |

See accompanying notes to the combined financial statements.

## (1) Nature of operations

*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 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 reflected in the operating and nonoperating revenues (expenses) as they relate to the Foundation 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 part of assets limited as to use in the accompanying combined statements of net assets.

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 Medical Center
4321 Carothers Parkway
Franklin, TN 37067

**(2) Summary of significant accounting policies**

**The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis.**

**(a) Basis of presentation**

**The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Pursuant to the 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 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.**

**(b) 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.**

**(c) Inventories**

**Inventories consist principally of medical and pharmaceutical supplies and are stated at the lower of cost, determined on the first-in, first-out (FIFO) basis, or market (net realizable value).**

**(d) 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.***

(e) Property and equipment

Property and equipment acquisitions are recorded at cost. The Medical Center capitalizes purchases that cost a minimum of $1,000 and have a useful life greater than 3 years. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 2-25 years; buildings generally 40 years; fixed equipment 5-20 years; and major movable equipment 3-20 years. 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 minor 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.

(f) 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.

(g) 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.

(h) 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.

(i) Patient service revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, 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.

**(j) Risk management**

The Medical Center is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance is purchased for claims arising from such matters. The Medical Center is self-insured for employee medical and other healthcare benefit claims and judgments as discussed in Note 16.

**(k) 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.

**(l) 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.* During 2011, $427 of net assets were released from restrictions and reclassified from restricted to unrestricted.

**(m) 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.

**(n) 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.**

**(o) 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.**

**(p) Recently issued accounting pronouncements**

**In August 2010, accounting standards relating to the presentation of insurance claims and related insurance recoveries for health care entities were amended to require the entity to recognize an insurance receivable at the same time that it recognizes the liability, measured on the same basis of the liability. These amendments are effective for financial statements for fiscal years beginning after December 15, 2010. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2012.**

**In August 2010, accounting standards relating to the disclosure of charity care for health care entities were amended to require the entity to measure charity care based on the direct and indirect costs of providing the charity care. These amendments are effective for financial statements for fiscal years beginning after December 15, 2010. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2012.**

**The Medical Center is currently assessing the impact of adopting these accounting standards.**

**(q) Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(r) Performance indicator**

Excess of revenues over expenses reflected in the accompanying statements of revenues, expenses and changes in net assets is a performance indicator.

**(s) Events occurring after reporting date**

The Medical Center has evaluated events and transactions that occurred between June 30, 2011 and September 13, 2011, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**(3) Fair value measurements**

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). While a majority of the Medical Center's assets whose use is limited are cash equivalents, the Medical Center has approximately $5,000,000 and $20,000,000 in certificates of deposit as of June 30, 2011 and 2010, respectively, that would be classified as Level 2 under the hierarchy above. The Medical Center does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2011 and 2010.

**(a) Financial assets**

The carrying amount of financial assets, consisting of cash, accounts receivable, accounts payable, accrued expenses and current portions of long-term debt and capital lease obligations approximate their fair value due to their relatively short maturities. Long-term debt and capital lease obligations are carried at amortized cost, which approximates fair value.

(b) Non-financial assets

The Medical Center's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Medical Center is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at the fair value. During the years ended June 30, 2011 and 2010, there were no triggering events that prompted an asset impairment test of the Medical Center's non-financial assets. Accordingly, the Medical Center did not measure any non-recurring, non-financial assets or recognize any amounts in earnings related to changes in fair value for non-financial assets for the years ended June 30, 2011 and 2010.

(4) Net patient service revenue

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:

| | 2011 | 2010 |
|---|---|---|
| Gross patient service charges | $ 407,614,597 | $ 393,308,969 |
| Less: Medicare contractual adjustments | (119,619,140) | (112,751,928) |
| TennCare contractual adjustments | (22,829,260) | (23,153,567) |
| Other contractual adjustments | (104,356,757) | (99,211,953) |
| Bad debt | (10,570,824) | (12,070,649) |
| Charity Care | (7,667,894) | (6,324,086) |
| Net patient service revenue | $ 142,570,722 | $ 139,796,786 |

Net patient accounts receivable consists of the following:

| | 2011 | 2010 |
|---|---|---|
| Commercial and managed care plans | $ 8,670,972 | $ 9,197,405 |
| Medicare | 3,398,009 | 4,829,590 |
| TennCare | 705,289 | 840,788 |
| Patients, including self-insured | 9,291,277 | 9,944,713 |
| | 22,065,547 | 24,812,496 |
| Less: allowance for uncollectible accounts | (6,608,348) | (7,528,326) |
| | $ 15,457,199 | $ 17,284,170 |

## (5) Third-party reimbursement programs

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 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 $46,074,000 and $3,518,000, respectively, in 2011 and approximately $44,950,000 and $2,560,000, respectively, in 2010.

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

## (6) Assets limited as to use

Assets limited as to use consist of the following:

| | 2011 | 2010 |
|---|---|---|
| Cash and certificates of deposits restricted by Board for capital improvements | $ 41,520,854 | $ 37,498,546 |
| Cash restricted by Board for bond principal and interest payments | 2,658,244 | 2,650,176 |
| Cash restricted by donors | 732,748 | 639,598 |
| Assets limited as to use | $ 44,911,846 | $ 40,788,320 |

Balances consist of cash and certificates of deposit at June 30, 2011 and 2010. 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, 2011 and 2010 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 16 for additional information related to the Medical Center's risks with respect to its investments.

## (7) 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 were to be repaid, along with interest, from County revenues. In March 2011, the County requested that the Medical Center pay the 2012 through 2016 principal and interest payments related to the debt. In June 2011, the Medical Center Board of Trustees approved the payment of the 2012 principal and interest payments which will approximate $1,700,000. The Board of Trustees will consider the payment of the future principal and interest payments at a later date.

## (8) Property and equipment

The major classifications and changes in property and equipment as of and for the years ended June 30, 2011 and 2010 are as follows:

| | Balance at June 30, 2010 | Additions/ Transfers | Transfers/ Retirements | Balance at June 30, 2011 |
|---|---|---|---|---|
| Land | $ 6,513,813 | $ - | $ - | $ 6,513,813 |
| Land improvements | 2,226,518 | 156,550 | - | 2,383,068 |
| Building and fixed equipment | 120,305,670 | 10,907,941 | - | 131,213,611 |
| Equipment | 60,162,601 | 2,855,245 | (36,664) | 62,981,182 |
| Equipment under capitalized leases | 11,955,613 | 2,112,919 | - | 14,068,532 |
| | 201,164,215 | 16,032,655 | (36,664) | 217,160,206 |
| Less allowance for depreciation and amortization: | | | | |
| Land improvements | 1,976,770 | 146,959 | - | 2,123,729 |
| Building and fixed equipment | 31,159,423 | 3,980,648 | - | 35,140,071 |
| Equipment | 47,400,234 | 4,007,396 | (36,664) | 51,370,966 |
| Equipment under capitalized leases | 7,744,718 | 957,663 | - | 8,702,381 |
| Total accumulated depreciation and amortization | 88,281,145 | 9,092,666 | (36,664) | 97,337,147 |
| | 112,883,070 | 6,939,989 | - | 119,823,059 |
| Construction in progress, net | 19,880 | 812,508 | (41,811) | 790,577 |
| | $112,902,950 | $ 7,752,497 | $ (41,811) | $120,613,636 |

| | Balance at June 30, 2009 | Additions/ Transfers | Transfers/ Retirements | Balance at June 30, 2010 |
|---|---|---|---|---|
| Land | $ 6,513,813 | $ - | $ - | $ 6,513,813 |
| Land improvements | 2,226,518 | - | - | 2,226,518 |
| Building and fixed equipment | 118,940,237 | 1,365,433 | - | 120,305,670 |
| Equipment | 58,995,642 | 1,463,902 | (296,943) | 60,162,601 |
| Equipment under capitalized leases | 11,405,976 | 549,637 | - | 11,955,613 |
| | 198,082,186 | 3,378,972 | (296,943) | 201,164,215 |
| Less allowance for depreciation and amortization: | | | | |
| Land improvements | 1,839,088 | 137,682 | - | 1,976,770 |
| Building and fixed equipment | 27,297,416 | 3,862,007 | - | 31,159,423 |
| Equipment | 42,885,917 | 4,811,260 | (296,943) | 47,400,234 |
| Equipment under capitalized leases | 6,975,527 | 769,191 | - | 7,744,718 |
| Total accumulated depreciation and amortization | 78,997,948 | 9,580,140 | (296,943) | 88,281,145 |
| | 119,084,238 | (6,201,168) | - | 112,883,070 |
| Construction in progress, net | 298,930 | 1,258,663 | (1,537,713) | 19,880 |
| | $119,383,168 | $ (4,942,505) | $ (1,537,713) | $112,902,950 |

Construction in progress at June 30, 2011 consists primarily of renovations to department offices, software upgrades, and a new payroll system. Estimated costs to complete these projects amount to approximately $3,178,000 at June 30, 2011.

## (9) Investment in joint venture

During 2006, the Medical Center entered into a joint venture with certain physicians to own and operate Williamson Surgery Center, LLC (the "Surgery Center"). As of June 30, 2011 and 2010, the Medical Center's ownership interest in the Surgery Center was approximately 48%. Other operating revenue for the year ended June 30, 2010 includes $187,299 for the use of Medical Center personnel and administrative and other services provided. There was no other operating revenue for the year ended June 30, 2011 from the Surgery Center. For the year ended June 30, 2011, the Medical Center received $71,205 in distributions from the joint venture. In August 2011, the Medical Center purchased an additional 32% ownership interest held by physicians for approximately $1,024,000 and began consolidating the operations of the Surgery Center.

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. As of June 30, 2009 the joint venture was owned equally by the Medical Center and Saint Thomas Network and net income/loss of WSTCH was to be divided equally. Effective November 30, 2009, the Medical Center acquired the remaining ownership interest in WSTCH. No consideration was required for this transaction. Prior to November 30, 2009, the Medical Center provided administrative and other services and personnel to WSTCH.

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 owned 80% and Saint Thomas Network owned 20% of WSTMG and net income/loss of WSTMG was to be allocated based on these ownership interests at June 30, 2009. Effective November 30, 2009, the Medical Center acquired the remaining ownership interest in WSTMG in consideration for forgiveness of a receivable due from WSTMG in the amount of $36,137. Prior to November 30, 2009 the Medical Center provided administrative and other services and personnel to WSTMG.

The Medical Center contributed $189,989 during 2010 to WSTCH and WSTMG.

Other operating revenue for the year ended June 30, 2010 included $369,872 for administrative and other services and personnel provided to both WSTCH and WSTMG. Subsequent to the acquisition of both WSTCH and WSTMG the Medical Center records transactions relating to these interests in the consolidated operations of the Medical Center.

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 7.0% and 6.0% at June 30, 2011 and 2010, respectively. Equity earnings are distributed based upon tons of laundry processed by S.H.S.

The Medical Center paid S.H.S. approximately $512,000 and $504,000 for laundry services for 2011 and 2010, respectively.

Combined summary information for the Surgery Center and S.H.S, as of June 30, 2011 and 2010 and for the year then ended, is as follows:

| | 2011 | 2010 |
|---|---|---|
| Total assets | $ 12,948,362 | $ 12,523,354 |
| Total liabilities | $ 5,328,226 | $ 4,879,906 |
| Net revenues | $ 16,178,204 | $ 15,774,522 |
| Net earnings | $ 603,827 | $ 119,959 |
| Medical Center's interest: | | |
| Investment in joint ventures | $ 690,036 | $ 637,274 |
| Equity in earnings (losses) of joint ventures | $ 123,967 | $ (269,998) |

(10) 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 $1,943,624 and $2,172,706 in 2011 and 2010, 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 $1,401,708 and $1,917,538 at June 30, 2011 and 2010, respectively. In March 2011, the County requested that this donation be discontinued for the years ended June 30, 2012 through 2016. No formal agreements approving this request have been executed as of report issuance.

(11) Long-term debt

A schedule of changes in the Medical Center's long-term debt is as follows:

| | Balance at June 30, 2010 | Additions | Reductions | Balance at June 30, 2011 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Hospital Revenue and Tax Bonds Series 2004B | $ 12,215,000 | $ - | $ 625,000 | $ 11,590,000 | $ 650,000 |
| Hospital Revenue and Tax Bonds Series 2004A | 11,700,000 | - | 620,000 | 11,080,000 | 645,000 |
| Hospital Revenue and Tax Refunding Bonds, Series 2008 | 3,660,000 | - | 1,800,000 | 1,860,000 | 1,860,000 |
| 3.15% Note payable to bank (one-month LIBOR + 2.9%) | 7,333,333 | - | 566,667 | 6,766,666 | 1,400,004 |
| 4.31% Note payable to bank | 7,023,421 | - | 343,479 | 6,679,942 | 402,152 |
| 0.84% Note payable to bank (one-year LIBOR + .65%) | 206,176 | - | 206,176 | - | - |
| 0.84% Note payable to bank (one-year LIBOR + .65%) | 370,286 | - | 211,592 | 158,694 | 158,694 |
| 4.50% Note payable to bank | 1,755,013 | - | 169,116 | 1,585,897 | 176,049 |

| | | | | | |
|---|---|---|---|---|---|
| 1.57% Note payable to bank (one-month LIBOR + 1.35%) | 698,731 | - | 306,700 | 392,031 | 306,696 |
| 1.72% Note payable to bank (one-month LIBOR + 1.50%) | - | 9,150,000 | - | 9,150,000 | 838,750 |
| | $ 44,961,960 | $ 9,150,000 | $ 4,848,730 | $ 49,263,230 | $ 6,437,345 |

| | Balance at June 30, 2009 | Additions | Reductions | Balance at June 30, 2010 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Hospital Revenue and Tax Bonds Series 2004B | $ 12,825,000 | $ - | $ 610,000 | $ 12,215,000 | $ 625,000 |
| Hospital Revenue and Tax Bonds Series 2004A | 12,300,000 | - | 600,000 | 11,700,000 | 620,000 |
| Hospital Revenue and Tax Refunding Bonds Series 2008 | 5,410,000 | - | 1,750,000 | 3,660,000 | 1,800,000 |
| 6.99% Note payable to bank | 7,833,333 | - | 500,000 | 7,333,333 | 500,000 |
| 4.78% Equipment loan | 180,314 | - | 180,314 | - | - |
| 4.31% Note payable to bank | 7,354,378 | - | 330,957 | 7,023,421 | 384,987 |
| 1.82% Note payable to bank (one-year LIBOR + .65%) | 453,586 | - | 247,410 | 206,176 | 206,176 |
| 1.82% Note payable to bank (one-year LIBOR + .65%) | 581,878 | - | 211,592 | 370,286 | 211,592 |
| 4.50% Note payable to bank | 1,909,383 | - | 154,370 | 1,755,013 | 168,391 |
| 1.67% Note payable to bank (one-month LIBOR + 1.35%) | 1,005,431 | - | 306,700 | 698,731 | 306,700 |
| | $ 49,853,303 | $ - | $ 4,891,343 | $ 44,961,960 | $ 4,822,846 |

**On December 1, 2004, the County issued $15,110,000 in Hospital Revenue and Tax Bonds, Series 2004B (the Series 2004B Bonds) for the purpose of constructing improvements and renovations to and equipping of the Medical Center. Specifically, the 2004B Bonds were used for a multi-phase facility expansion and renovation project, which extended over several years and was substantially completed in 2007. The remaining Series 2004B Bonds bear interest rates ranging from 3.50% 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, plus interest accrued to the redemption date.**

**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 Medial 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 4.000% 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, plus interest accrued to the redemption date.**

**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.**

The Medical Center also issues notes payable to finance certain property and equipment additions. The 3.15% 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 is secured by a subordinated pledge of the Medical Center's net revenues and accounts receivable. 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 0.84% note payable to bank bears interest at a variable rate based on the bank's index rate (LIBOR) plus .65% through February 2012 and is secured by equipment and ambulances. The 4.50% 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 1.57% note payable to bank bears interest at a variable rate based on the bank's index rate (LIBOR) plus 1.35% through July 2018 and is unsecured. In June 2011, the Hospital issued a $9,150,000 note payable to bank for the purchase of a building. The 1.72% note payable to bank bears interest at a variable rate based on the bank's index rate (LIBOR) plus 1.50% through July 2014 and is secured by accounts receivable.

The debt service requirements at June 30, 2011 related to long term debt are as follows:

| Year | Principal Maturities or Sinking Fund Requirements | Interest |
|---|---|---|
| 2012 | $ 6,437,345 | $ 1,744,270 |
| 2013 | 4,349,858 | 1,524,932 |
| 2014 | 9,765,742 | 1,223,770 |
| 2015 | 10,679,927 | 916,157 |
| 2016 | 1,726,349 | 762,572 |
| 2017 - 2021 | 9,124,009 | 2,790,030 |
| 2022 - 2026 | 7,180,000 | 795,240 |
| | $ 49,263,230 | $ 9,756,971 |

The Medical Center did not capitalize any interest relating to construction projects in 2011 or 2010.

## (12) Other receivables

Other current and long-term receivables at June 30, 2011 and 2010 include $678,854 and $978,740, respectively, in receivables from certain physicians which were made as part of the Medical Center's recruitment program to attract physicians to the Medical Center's service area. Under terms of the related agreements, such receivables will be forgiven over a period of time, generally over three years, as long as the physician continues to practice in the area. The Medical Center is amortizing these loans over the physicians' service commitments.

## (13) 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 $2,095,000 and $2,192,000 in 2011 and 2010, respectively, related to the Medical Center's share of expenses for contributions and service charges on tax-sheltered annuities for covered employees. The Medical Center's contribution percentage is 3% of covered wages for non-management employees, 7% for management employees and 10% for executives as of June 30, 2011. The Medical Center also matches employee contributions up to 2% of compensation. 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, 2011 and 2010 consist of various mutual fund and fixed income investments.

## (14) Functional expenses

The following is a summary of management's functional classification of operating expenses:

| | 2011 | 2010 |
|---|---|---|
| Healthcare services | $ 80,111,209 | $ 77,251,117 |
| General and administrative | 57,515,678 | 59,650,181 |
| | $ 137,626,887 | $ 136,901,298 |

## (15) 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, 2011 are as follows:

| Year | Capital Leases | Operating Leases |
|---|---|---|
| 2012 | $ 1,284,787 | $ 1,265,000 |
| 2013 | 811,548 | 626,000 |
| 2014 | 198,115 | 518,000 |
| 2015 | - | 38,000 |
| Total future minimum lease payments | 2,294,450 | $ 2,447,000 |
| Less amounts representing interest of 3.86%-4.50% | (58,381) | |
| Present value of net minimum lease payments | $ 2,236,069 | |

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

| | 2011 | 2010 |
|---|---|---|
| Balance at beginning of year | $ 1,591,084 | $ 2,344,002 |
| Additions | 2,360,281 | 549,637 |
| Reductions | (1,715,296) | (1,302,555) |
| Balance at end of year | 2,236,069 | 1,591,084 |
| Current portion of capital lease obligations | 1,246,344 | 1,040,880 |
| Capital lease obligations, excluding current portion | $ 989,725 | $ 550,204 |

The Medical Center generates rental income primarily from operating leases of three medical office buildings. Rental revenue was $2,605,640 and $2,910,476 in 2011 and 2010, respectively, and is included in other revenue.

Future minimum rental revenue under noncancellable leases, including a lease with the Surgery Center currently for $64,000 per month through September 2015, at June 30, 2011 is as follows:

| Year | |
|---|---|
| 2012 | $ 2,509,000 |
| 2013 | 2,211,000 |
| 2014 | 1,937,000 |
| 2015 | 1,497,000 |
| 2016 | 1,191,000 |
| 2017 and later years | 166,000 |
| | $ 9,511,000 |

Future minimum rental payments generally include minor annual increases for inflation. Rental income in excess of rent expense was $695,281 and $904,497 in 2011 and 2010, respectively.

## (16) 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 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, 2011 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 the government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Medical Center is self-insured for medical and other healthcare benefits provided to its employees and their families. The Medical Center maintains reinsurance through a commercial excess coverage policy which covers annual individual employee claims paid in excess of $175,000 for the plan year. Contributions by the Medical Center and participating employees are based on actual claims experience. A provision for estimated incurred but not reported claims has been provided in the accompanying combined financial statements. Total expenses under this program amounted to approximately $7,352,000 and $8,826,000 for the years ended June 30, 2011 and 2010, 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 cash equivalents are with two financial institutions.

Management continues to implement policies, procedures, and compliance overview organizational structure to enforce and monitor compliance with the Health Insurance Portability and Accountability Act of 1996 and other government statues and regulations. The Medical Center's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

The Centers for Medicare and Medicaid Services ("CMS") have implemented a Recovery Audit Contractors ("RAC") program. The purpose of the program is to reduce improper Medicare payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. While management believes that all Medicare billings are proper and adequate support is maintained, certain aspects of Medicare billing, coding and support are subject to interpretation and may be viewed differently by the RAC auditors. As the amount of any recovery is unknown, management has not recorded any reserves related to the RAC audit at this time.

# 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*

**The Board of Trustees**
**Williamson County Hospital District**
**Franklin, Tennessee:**

We have audited the combined 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 year ended June 30, 2011, and have issued our report thereon dated September 13, 2011. 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 audit 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Medical Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Medical Center's financial statements that is more than inconsequential will not be prevented or detected by the Medical Center's internal control.

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

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

## 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 would be required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Trustees, 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 those specified parties.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 13, 2011