

Woods Memorial Hospital District

**Financial Statements For the Period from
July 1, 2008 thru February 29, 2012**

with
Independent Auditors' Report

WOODS MEMORIAL HOSPITAL DISTRICT

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Independent Auditors' Report

Board of Trustees
Woods Memorial Hospital District
Etowah, Tennessee

McMinn County Commission
McMinn County Courthouse
Athens, Tennessee

We have audited the accompanying balance sheet of Woods Memorial Hospital District (the "District") as of February 29, 2012, and the related statement of revenues, expenses and changes in net assets and cash flows for the period from July 1, 2008 thru February 29, 2012. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of February 29, 2012, and the changes in financial position and its cash flows for the period from July 1, 2008 thru February 29, 2012 in conformity with accounting principles generally accepted in the United States of America.

The District has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

HG & A Associates, P.C.

May 24, 2012

WOODS MEMORIAL HOSPITAL DISTRICT
BALANCE SHEET
 February 29, 2012

Assets

Current assets:

Cash and cash equivalents	\$	21,558
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Other assets:

Board designated:

Foundation - cash and cash equivalents		224,374
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Foundation - investments		2,965
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		227,339
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	\$	248,897
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Liabilities and Net Assets

Current liabilities:

Accounts payable:

Legal and professional services	\$	13,340
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McMinn County Trustee		8,218
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Total current liabilities		21,558
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Net assets:

Unrestricted		227,339
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Commitments

		-
	\$	248,897

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

WOODS MEMORIAL HOSPITAL DISTRICT
STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN NET ASSETS

For the Period from July 1, 2008 thru February 29, 2012

Revenues:	
Medicare cost report settlement (2007)	\$ 74,357
Medicare overpayments reimbursed	(151,504)
Total revenues	<u>(77,147)</u>
Expenses:	
Professional fees	34,305
Investment fees	5,694
Supplies	113
Purchased services	13,901
Drugs and medical supplies net of reimbursement	1,057
HSR information system fees	8,160
Licenses	40
Total operating expenses	<u>63,270</u>
Operating loss	<u>(140,417)</u>
Nonoperating revenues:	
Interest income	65,503
Interest income - designated assets	7,938
Dividends - designated assets	252
Unrealized gain on investments - designated assets	921
Net nonoperating revenues	<u>74,614</u>
Operating transfer to McMinn County permanent fund	<u>(2,941,245)</u>
Changes in net assets	(3,007,048)
Total net assets - July 1, 2008	<u>3,234,387</u>
Total net assets - February 29, 2012	<u>\$ 227,339</u>

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

WOODS MEMORIAL HOSPITAL DISTRICT
STATEMENT OF CASH FLOWS

For the Period from July 1, 2008 thru February 29, 2012

Cash flows from operating activities:	
Cash received from third-party reimbursements	\$ 74,357
Cash payments for goods and services	<u>(780,834)</u>
Net cash used by operating activities	(706,477)
Cash flows provided by investing activities:	
Interest and dividends received	73,693
Cash flows used by noncapital financing activities:	
Operating transfer to McMinn County permanent fund	<u>(2,933,027)</u>
Net decrease in cash and cash equivalents	(3,565,811)
Cash and cash equivalents - July 1, 2008	<u>3,811,743</u>
Cash and cash equivalents - February 29, 2012	<u><u>\$ 245,932</u></u>
Cash and cash equivalents	\$ 21,558
Development Foundation - board designated	<u>224,374</u>
	<u><u>\$ 245,932</u></u>
Reconciliation of operating loss to net	
cash used by operating activities:	
Operating loss	\$ (140,417)
Adjustments to reconcile operating loss	
to net cash used by operating activities:	
Changes in assets and liabilities:	
Accounts payable	<u>(566,060)</u>
Net cash used	
by operating activities	<u><u>\$ (706,477)</u></u>
Noncash Investing, Capital and Financing Activities:	
Unrealized gain on investments - designated assets	<u><u>\$ (921)</u></u>

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

WOODS MEMORIAL HOSPITAL DISTRICT

Notes to Financial Statements

February 29, 2012

(1) Summary of Significant Accounting Policies

(a) Nature of Business

The District was a discretely presented component unit of McMinn County, Tennessee, and the financial statements were previously presented in both the District's separate financial report and in the McMinn County financial report as a full service hospital (Woods Memorial Hospital), a nursing home (McMinn Memorial Nursing Home), and a health services rental building in Etowah, Tennessee up until the sale of its assets and operations on December 7, 2007. The District was reported as a discretely presented component unit of McMinn County, Tennessee, as defined under the criteria set forth in Governmental Accounting Standards Board Statement No. 14 because the County Commissioners of McMinn County appoint the governing board for the District, and the County is obligated to fund any deficits, which may arise from the District's operations. This reporting represents the finalization of the District's closeout of the proceeds from the sale of its operations and the distribution of identified funds, per the closing agreements, to the permanent fund with McMinn County, Tennessee (as explained in Note 5) and the Woods Memorial Foundation, Inc. (the "Foundation").

(b) Basis of Accounting

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

- Invested in capital assets net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgage notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets components as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net assets through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – The component of net asset consisting of net assets that do not meet the definition "restricted" or "invested in capital assets, net of related debt".

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT

Notes to Financial Statements

February 29, 2012

(1) Summary of Significant Accounting Policies (continued)

(b) Basis of Accounting (continued)

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

(c) Investments

Investments are carried at fair value as determined by quoted market prices at the reporting date.

(d) Income taxes

The Internal Revenue Service has ruled that the Hospital District qualified as an instrumentality of the state and, as such, is exempt from filing federal income tax returns.

(e) Statement of Cash Flows

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

(f) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) Deposits and Investments

Deposits are carried at cost, which approximates their fair value. At February 29, 2012 the carrying amount and bank balances of the District's deposits was \$245,932. Custodial credit risk for the District's deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As required by state statutes, the District's policy is to require the financial institutions holding its deposits to be members of the Tennessee Collateral Pool or pledge collateral for deposits in excess of federal depository insurance. At February 29, 2012 none of the District's bank balances was exposed to credit risk.

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT

Notes to Financial Statements

February 29, 2012

(2) Deposits and Investments (continued)

Investments

The District has maintained ownership in a publicly traded stock that was donated from a local individual. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in market valuations. The fair value of this stock, based on quoted market prices, at February 29, 2012 was \$2,965. Per Board designation these shares will be transferred to the Foundation as further detailed in Note 5.

(3) Medicare Revenues and Reimbursement

The District, up until its sale effective December 7, 2007, had an agreement with the third-party payer Medicare that provided for reimbursement to the District at amounts that differ from its established rates. Inpatient acute care services rendered to Medicare program beneficiaries were paid at prospectively determined rates-per-discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic, and other factors. Outpatient services were reimbursed based upon ambulatory payment classifications. Final settlement is determined upon the audit by the Medicare fiscal intermediary of the annual cost report submitted by the District. The District's Medicare cost reports have been desk audited by the Medicare fiscal intermediary through June 30, 2008 and all reimbursements or payments due have been finalized. No additional cost reports are required to be filed by the District.

(4) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In order to minimize its costs, the District insured itself against potential losses associated with these risks through the purchase of commercial insurance. Due to the sale of the District's operations in December 2007, the District reduced its coverage to only a director's and officer's liability policy. This policy provided coverage in this area until the assets of the District were fully disbursed under its agreement with McMinn County, Tennessee (as detailed in Note 5). In addition, there have been no losses in excess of insurance coverage during the past three fiscal years.

In a prior fiscal year the District's insurance carrier for general liability and workers' compensation issues became insolvent. As a result, the District had several claimants awarded lifetime medical coverage that became the responsibility of the District. During this audit period the District was able to resolve claimant issues for all parties except with one individual. As further detailed in Note 5, the McMinn County Commission agreed to accept the responsibility for this claimant's future medical claims to be paid from the established permanent funds.

WOODS MEMORIAL HOSPITAL DISTRICT

Notes to Financial Statements

February 29, 2012

(5) Commitments

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

- a) \$3,000,000 of the purchase price was to be placed in an escrow account for a period of three years. The balance of the sale proceeds were to be maintained in an operating account to pay obligations of the District not assumed by the buyer at closing.
- b) On the anniversary date of the agreement one-third of the funds in the escrow account were to be released to the District and the funds were to be transferred to McMinn County to be placed with any other excess proceeds from the sale in a separate fund of McMinn County and deposited with McMinn County Trustee's office in a permanent fund.
- c) The funds in this account are to be used for healthcare related purposes related to the needs of residents and organizations within McMinn County.
- d) The income and principal of this fund shall not be used for a period of eight years from the anniversary date of the closing except in limited and extraordinary circumstances as detailed in the agreement.
- e) During the ninth year following the anniversary of the closing, the McMinn County Commission shall have the authority to use up to thirty-five percent of the income generated during the previous year for health care purposes only, with the assistance of the Foundation. The remaining income not made available for use for health care purposes shall remain a part of the principal held by the McMinn County Trustee to continue to grow the principal.
- f) In addition to its advisory role, the Foundation is to receive the contributions held by the District for its benefit and is to hold, manage, and invest these funds separate from the excess proceeds of the agreement.

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT

Notes to Financial Statements

February 29, 2012

(5) Commitments (continued)

In regards to this Plan agreement the following actions were completed or in place as of February 29, 2012:

- g) The \$3,000,000 was ultimately used to complete unknown obligations from June 30, 2008, as approved for payment by the Board, in regards to the sale of District assets and closing of its operations. Ultimately \$2,753,355 was transferred from the escrow account to the permanent fund with McMinn County in a timely manner as per the agreement.
- h) The operating account was used to complete the known payable obligations of the District at June 30, 2008 and finalized additional operating transactions during this period from July 1, 2008 thru February 29, 2012. From these operating funds the District transferred an additional \$179,672 to the McMinn County permanent fund for a total in escrow and operating account transfers for this reporting period of \$2,933,027 to that fund.

In addition, of the \$21,558 of operating funds left at February 29, 2012, \$13,340 was used to pay the final audit, legal and other professional services to close the District and the remaining \$8,218 was transferred to the McMinn County permanent fund in May 2012.

- i) The District had one worker's compensation case unresolved in regard to a former employee of the District. In order to achieve a formal closing of the District, on December 19, 2011, the McMinn County Commission formerly approved through Resolution No. 11-142 to amend the formal Plan to allow the established permanent fund to make payments in regards to any liabilities from this case.
- j) On January 16, 2012 the McMinn County Commission approved a request for the Tennessee General Assembly to repeal Chapter 13 of the Private Acts of 1965 that would terminate the District. On March 30, 2012 the Tennessee General Assembly passed Private Chapter No. 42 to repeal Chapter 13 of the Private Acts of 1965 as requested by the McMinn County Commission that allows for the termination of the District and its Board of Trustees. On April 16, 2012 the McMinn County Commission formerly resolved by resolution to accept the approval of the State of Tennessee actions which allowed for the Woods Board of Trustees to be dissolved effective December 31, 2012.
- k) In May 2012 the established Foundation formerly adopted its charter and bylaws that allowed for the release of \$224,374 and 46 shares of stock from the District's designated funds.

WOODS MEMORIAL HOSPITAL DISTRICT

Notes to Financial Statements

February 29, 2012

(6) Related Party Transaction

One of the District's Board members holds a 3.125% interest in the partnership that purchased the assets and operations of the District in December 2007. The individual recused himself from any decisions between the Board and that partnership that occurred during this audit period.

(7) Subsequent Events

The District has evaluated events and transactions subsequent to the balance sheet date through May 24, 2012, which is the date the financial statements were available to be issued. From this evaluation the following events occurred that required reporting:

- The District and its Board was approved for formal dissolution by the McMinn County Commission on April 16, 2012
- The District completed its payments from the operating account by payment of accounts payable for various professional fees totaling \$13,340 and transferred the remaining \$8,218 to the McMinn County permanent fund
- The District transferred the Board designated assets to the established Foundation in May 2012



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Woods Memorial Hospital District
Etowah, Tennessee

McMinn County Commission
McMinn County Courthouse
Athens, Tennessee

We have audited the financial statements of Woods Memorial Hospital District (the "District") as of and for the period from July 1, 2008 through February 29, 2012, and have issued our report thereon dated May 24, 2012. 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of audit findings, we identified a certain deficiency in internal control over financial reporting that we consider to be significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency, 12-01, described in the accompanying schedule of audit findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct

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



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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of audit findings as finding 12-02.

The District's response to the findings identified in our audit is described in the accompanying schedule of audit findings. We did not audit the District's response and, accordingly, we express no opinion on it.

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

HG & A Associates, P.C.

May 24, 2012

WOODS MEMORIAL HOSPITAL DISTRICT

Schedule of Audit Findings

For the Period from July 1, 2008 thru February 29, 2012

FINDINGS - FINANCIAL STATEMENT AUDIT**(12-01) Finding: Accounting Control Procedures**

After the sale of the assets and the District's operations in December 2007 there were no remaining employees to complete the accounting procedures for recording, processing and reporting its operations. Thus, our audit process required several adjustments of a material nature to record activities of the District in an appropriate financial statement format.

Recommendation

We recommend the District take the appropriate steps to insure that its final operating activities are recorded for the remainder of its existence in a manner that will allow for an accurate financial statement presentation.

Management Response

It was the Board's decision not to continue paying for an employee to conserve funds. The CEO agreed to consult on any problems and did so at no cost. In addition, oversight was provided by the Board of Trustees in all financial matters in this final reporting period.

(12-02) Finding: Completion of Federal Form 1099

The District paid two individuals for contracted services during this reporting period in excess of \$600 in several annual periods. Those payments were not reported appropriately by the completion of the Internal Revenue Service reporting form 1099.

Recommendation

We recommend the District take the appropriate steps to insure that its payments for similar services are properly reported for calendar year 2012.

(continued)

WOODS MEMORIAL HOSPITAL DISTRICT
Schedule of Audit Findings (continued)
For the Period from July 1, 2008 thru February 29, 2012

(12-02) Finding: Completion of Federal Form 1099 (continued)

Management Response

Individuals did report their earnings on tax returns. Annual 1099 preparation was overlooked for this reporting period.

STATUS – PRIOR YEAR FINDINGS

(08-01) Finding: Accounting Control Procedures – Preparation of Financial Statements

This finding was repeated as (12-01) for this audit period.

(08-02) Finding: Preparation of Form 1099

This finding was repeated as (12-02) for this audit period.