Williamson County Hospital District
BOARD OF TRUSTEES MEETING

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

October 25, 2012

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 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, 2012, and have issued our report thereon dated September 25, 2012. 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 dated March 27, 2012. 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. The significant accounting policies used by the Medical Center are described in Note 2 to the 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 financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the 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 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 estimates in determining that they are reasonable in relation to the 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 financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the 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 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 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 25, 2012.

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 Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Medical Center's financial statements and our report thereon does not extend beyond the financial information identified in our report, and we have no obligation to perform any procedures to corroborate other information contained in these documents.

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.

<u>Independence</u>

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, 2011 through the date of this letter.

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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 25, 2012

Attachment A

Williamson County Hospital District
Summary of Uncorrected Misstatements
June 30, 2012

	Impact of Adjustments on 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	(191,000)	191,000	-	-	-	-
To adjust cash and long-term debt for debt payments made prior to year end	-	-	(156,000)	-	(156,000)	-
Total adjustments	(191,000)	191,000	(156,000)	-	(156,000)	-
Financial statement amounts	6,543,000	153,004,000	37,834,000	172,713,000	16,547,000	40,996,000
Impact as a percentage of financial statement amounts	-2.9%	0.1%	-0.4%	N/A	-0.9%	N/A

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

Audited Financial Statements
and Other Information

June 30, 2012 and 2011

(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 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, 2012 and 2011, and the related 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 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, 2012 and 2011, and the respective changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2012 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 2012 audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 2 - 6 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 25, 2012

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, 2010 thru June 30, 2012. Please read this discussion in conjunction with the Medical Center's 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 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 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 financial statements are an integral part of the financial statements and are essential to understanding the data contained in the financial statements. The balance sheets provide descriptions of the Medical Center's financial position. The statements of revenues, expenses and changes in net assets report the revenues and expenses related to the Medical Center's activities.

The Medical Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board Statement (GASB) 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 (FASB) and predecessor standard setting organizations, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

NOTEWORTHY FINANCIAL ACTIVITY

- Key measures of patient activity are noted below. Admissions decreased 228 or 2.3% from 2011 to 2012. Equivalent patient days which is a method of measuring outpatient activity increased for the same time period by 507. Surgeries increased by 848 or 12.5% from 2011 to 2012. All other measures remained constant or had a slight increase.

	Year Ended June 30,		
	2012	**2011**	**2010**
Admissions	9,600	9,828	9,553
Patient Days	35,359	37,740	36,466
Length of Stay	3.7	3.8	3.8
Equivalent patient days	79,990	79,483	74,711
Surgeries	7,608	6,760	6,582
Surgery minutes	907,019	837,402	841,319
Emergency Room Visits	36,639	35,892	35,577
Births	1,403	1,366	1,363
Case mix index	1.3	1.20	1.20

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

	Year ended June 30,		
	2012	**2011**	**2010**
Medicare	41.0%	41.4%	41.3%
Managed Care	9.8%	9.7%	8.5%
Commercial	8.9%	9.5%	10.2%
TennCare	6.6%	6.6%	7.0%
Self Pay	5.4%	5.1%	4.7%
Workers Comp	.9%	1.0%	0.7%
Blue Cross	27.4%	26.7%	27.0%
Disabled	0%	0.0%	0.6%
	100.0%	100.0%	100.0%

BALANCE SHEET

As of June 30, 2012 the Medical Center's current assets of $37.9 million were sufficient to cover current liabilities of $16.5 million (current ratio of 2.3 compared to 2.4 in the prior year). The Debt Service Coverage Ratio for June 30, 2012 was at 2.95 compared to 2.7 for June 30, 2011. Days cash on hand was 149.1 at June 30, 2012 versus 171.5 at June 30, 2011, a decrease of 13%.

	Year ended June 30,		
	2012	**2011**	**2010**
Assets:			
Current assets	$37,833,942	$45,398,855	39,826,763
Property and equipment, net	123,303,107	120,613,636	112,902,950
Non-current assets limited as to use	46,282,509	42,253,602	38,138,144
Other non-current assets	3,127,900	1,050,158	1,259,600
Total assets	$210,547,458	$209,316,251	$192,127,457
Liabilities:			
Current liabilities	$16,547,373	$19,039,743	$15,410,324
Bonds, notes payable and obligations under capital lease, excluding current portion	40,995,868	43,815,610	40,689,318
Total liabilities	$57,543,241	$62,855,353	$56,099,642
Net assets:			
Invested in capital assets net of related debt	$78,355,704	$69,114,337	$66,349,906
Restricted expendable net assets	870,164	781,188	688,465
Unrestricted	73,778,349	76,565,373	68,989,444
Total net assets	$153,004,217	$146,460,898	$136,027,815
Total liabilities and net assets	$210,547,458	$209,316,251	$192,127,457

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

	Year ended June 30,		
	2012	2011	2010
Operating revenues:			
Net patient service revenue	$145,160,808	$142,570,722	$139,796,786
Other operating revenue	3,797,019	3,878,453	4,648,147
Total operating revenues	148,957,827	146,449,175	144,444,933
Operating expenses:			
Salaries, wages and benefits	77,155,648	74,798,326	75,465,461
Supplies and other	56,556,498	53,695,707	51,831,691
Depreciation and amortization	9,974,174	9,132,854	9,604,146
Total operating expenses	143,686,320	137,626,887	136,901,298
Operating income	5,271,507	8,822,288	7,543,635
Non-operating revenue (expenses)			
Investment income	497,042	550,931	494,305
Interest expense	(1,736,726)	(2,046,594)	(2,286,824)
Income (Loss) on investment in joint venture	337,700	123,967	(269,998)
Contributions received from Williamson County	1,943,624	1,943,624	2,172,706
Contributions to Williamson County	(1,667,450)		
Other, net	1,716,875	855,164	438,843
Non-operating revenue (expenses), net	1,091,065	1,427,092	549,032
Revenue and gain in excess of expenses and losses	6,362,572	10,249,380	8,092,667
Capital grants and contributions	180,747	183,703	147,935
Increase in net assets	6,543,319	10,433,083	8,240,602
Net assets, beginning of year	146,460,898	136,027,815	127,787,213
Net assets, end of year	$153,004,217	$146,460,898	$136,027,815

- Total operating revenues for 2012 are comprised of net patient service revenue ($145 million) and other operating revenue ($3.8 million). Net patient service revenue for 2012 represents 34.8% of gross service charges, down from 35.4% of gross charges in 2011. 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 2012 increased by $2.5 million or 1.8% from the prior year.

- Salaries and wages increased by 3.4 million or 3% over the prior fiscal year. Full Time Equivalents (FTEs) were 1,126 and 1,171 in fiscal years 2011 and 2012, respectively.

- Overall benefit cost decreased 1.0 million or 9.3% due to a full year with Blue Cross as the third party administrator for the hospital's employee health insurance plan.

- Total operating expenses for 2012, including depreciation and amortization of $10.0 million, were $143.7 million. The salaries, wages and benefits expense accounted for 53.7% of the $143.7 million total operating expenses.

- The operating income to total operating revenue margin for fiscal year 2012 was $5.3 million compared to $8.8 million for 2011.

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 2012, the Medical Center had $123.3 million invested in capital assets, net of accumulated depreciation as compared to 120.6 million in 2011. The increase was mainly due to the major upgrade in the medical center's hospital computer system.

REQUEST FOR INFORMATION

The 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.

Management's Discussion and Analysis

WILLIAMSON MEDICAL CENTER OFFICERS

Donald Webb, Chief Executive Officer
Paul Bolin, Chief Financial Officer
Julie Miller, Chief Operating Officer
Lori Orme, Chief Nursing Officer
Ashley Perkins, Associate Administrator-Nursing
Tim Burton, Associate Administrator-Operations
Michel Spivey, Associate Administrator-Chief Information Officer
Phyllis Molyneux, Associate Administrator- Human Resources and Compliance

WILLIAMSON MEDICAL CENTER BOARD OF TRUSTEES

Rogers Anderson
A.J. Bethurum, M.D.
James (Bo) Butler
Bertram (Bert) Chalfant
Jim Cross, IV
Brown Daniel
Russell Little
Joel Locke, MD
Kathy McGee
Mary Mills
Jack Walton
Cheryl Wilson
Starling C Evins, M.D.

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

Statements of Net Assets

June 30, 2012

	Primary Enterprise	Component Unit	Total Reporting Entity
Assets			
Current assets:			
Cash	$ 11,547,270	$ -	$ 11,547,270
Assets limited as to use required for current liabilities	2,665,746	-	2,665,746
Patient accounts receivable, less allowance for uncollectible accounts of $8,230,521	18,516,833	-	18,516,833
Other receivables	738,915	-	738,915
Inventories	3,529,671	-	3,529,671
Prepaid expenses	835,507	-	835,507
Total current assets	37,833,942	-	37,833,942
Assets limited as to use, excluding assets required for current liabilities:			
By Board for capital improvements	45,459,753	-	45,459,753
By Board for bond principal and interest payments	2,665,746	-	2,665,746
By donors	-	822,756	822,756
Total assets limited as to use	48,125,499	822,756	48,948,255
Less: amount classified as current	(2,665,746)	-	(2,665,746)
	45,459,753	822,756	46,282,509
Property and equipment, net	123,303,107	-	123,303,107
Other assets:			
Other receivables, less current portion	268,018	-	268,018
Investment in joint ventures	940,191	-	940,191
Bond issuance costs, net of accumulated amortization	152,222	-	152,222
Goodwill and other intangible assets	1,767,469	-	1,767,469
Total other assets	3,127,900	-	3,127,900
Total assets	$ 209,724,702	$ 822,756	$ 210,547,458

See accompanying notes to the combined financial statements.

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

Statements of Net Assets, Continued

June 30, 2012

	Primary Enterprise	Component Unit	Total Reporting Entity
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 3,244,132	$ -	$ 3,244,132
Accrued payroll, compensated absences and payroll related liabilities	6,461,206	-	6,461,206
Accrued expenses and other liabilities	2,326,168	-	2,326,168
Accrued interest expense	119,798	-	119,798
Current portion of long-term debt	3,022,655	-	3,022,655
Current portion of capital lease obligations	928,880	-	928,880
Estimated third-party payor settlements	444,534	-	444,534
Total current liabilities	16,547,373	-	16,547,373
Long-term debt, excluding current portion	40,513,760	-	40,513,760
Capital lease obligations, excluding current portion	482,108	-	482,108
Total liabilities	57,543,241	-	57,543,241
Net assets:			
Unrestricted:			
Invested in capital assets, net of related debt	78,355,704	-	78,355,704
Unrestricted net assets	73,778,349	-	73,778,349
Total unrestricted net assets	152,134,053	-	152,134,053
Restricted	47,408	822,756	870,164
Total net assets	152,181,461	822,756	153,004,217
Total liabilities and net assets	$ 209,724,702	$ 822,756	$ 210,547,458

See accompanying notes to the combined financial statements.

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

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)

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)

Statements of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2012

	Primary Enterprise	Component Unit	Total Reporting Entity
Operating revenue:			
Net patient service revenue, net of provision for bad debts of $11,180,194	$ 145,160,808	$ -	$ 145,160,808
Other revenue	3,797,019	-	3,797,019
Total operating revenue	148,957,827	-	148,957,827
Operating expenses:			
Salaries and wages	67,337,802	-	67,337,802
Employee benefits	9,817,846	-	9,817,846
Supplies	33,085,241	-	33,085,241
Purchased services	6,012,262	-	6,012,262
Repairs and maintenance	3,767,736	-	3,767,736
Leases and rentals	2,244,199	-	2,244,199
Insurance	1,103,886	-	1,103,886
Depreciation and amortization	9,974,174	-	9,974,174
Other expenses	10,215,534	127,640	10,343,174
Total operating expenses	143,558,680	127,640	143,686,320
Operating income (loss)	5,399,147	(127,640)	5,271,507
Nonoperating income (expenses):			
Investment income	460,141	36,901	497,042
Interest expense	(1,736,726)	-	(1,736,726)
Equity in earnings of joint ventures	337,700	-	337,700
Contributions received from Williamson County	1,943,624	-	1,943,624
Contributions to Williamson County	(1,667,450)	-	(1,667,450)
Other, net	1,716,875	-	1,716,875
Net nonoperating income	1,054,164	36,901	1,091,065
Excess (deficit) of revenues over expenses before capital grants and contributions	6,453,311	(90,739)	6,362,572
Capital grants and contributions	-	180,747	180,747
Excess of revenues over expenses	6,453,311	90,008	6,543,319
Net assets at beginning of year	145,728,150	732,748	146,460,898
Net assets at end of year	$ 152,181,461	$ 822,756	$ 153,004,217

See accompanying notes to the combined financial statements.

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

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	3,878,453	-	3,878,453
Total operating revenue	146,449,175	-	146,449,175
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)	8,934,628	(112,340)	8,822,288
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
Contributions received from Williamson County	1,943,624	-	1,943,624
Other, net	855,164	-	855,164
Net nonoperating income (expenses)	1,405,305	21,787	1,427,092
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)

Statements of Cash Flows

Year ended June 30, 2012

	Primary Enterprise	Component Unit	Total Reporting Entity
Cash flows from operating activities, net of effects of acquisition (see Note 9):			
Receipts from and on behalf of patients	$ 142,173,665	$ -	$ 142,173,665
Receipts from other operations	1,206,600	180,747	1,387,347
Rent receipts	2,430,943	-	2,430,943
Payments to vendors for supplies and other	(55,763,560)	(127,640)	(55,891,200)
Payments to employees	(76,327,716)	-	(76,327,716)
Net cash provided by operating activities	13,719,932	53,107	13,773,039
Cash flows from noncapital financing activities:			
Contributions received from Williamson County	1,943,624	-	1,943,624
Contributions to Williamson County	(1,667,450)	-	(1,667,450)
Net cash provided by noncapital financing activities	276,174	-	276,174
Cash flows from capital and related financing activities, net of effects of acquisition (see Note 9):			
Capital expenditures, net	(11,802,312)	-	(11,802,312)
Principal paid on long-term debt	(6,511,806)	-	(6,511,806)
Proceeds from disposal of property and equipment	101,539	-	101,539
Repayment of capital lease obligations	(1,377,939)	-	(1,377,939)
Interest paid on long-term debt	(1,810,829)	-	(1,810,829)
Net cash used in capital and related financing activities	(21,401,347)	-	(21,401,347)
Cash flows from investing activities, net of effects of acquisition (see Note 9):			
Cash paid for acquisition, net of cash acquired (see Note 9)	(972,018)	-	(972,018)
Investment income	460,141	36,901	497,042
Other, net	1,253,420	-	1,253,420
Purchase of investments	-	(716,889)	(716,889)
Net cash provided by investing activities	741,543	(679,988)	61,555
Net increase (decrease) in cash and cash equivalents	(6,663,698)	(626,881)	(7,290,579)
Cash and cash equivalents at beginning of year	66,336,467	732,748	67,069,215
Cash and cash equivalents at end of year	$ 59,672,769	$ 105,867	$ 59,778,636

See accompanying notes to the combined financial statements.

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

Statements of Cash Flows, Continued

Year ended June 30, 2012

	Primary Enterprise	Component Unit	Total Reporting Entity
Reconciliation of cash and cash equivalents to the balance sheets:			
Cash	$ 11,547,270	$ -	$ 11,547,270
Cash and cash equivalents included in assets limited as to use	48,125,499	105,867	48,231,366
Cash and cash equivalents	$ 59,672,769	$ 105,867	$ 59,778,636
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 5,399,147	$ (127,640)	$ 5,271,507
Adjustments to reconcile operating income (loss) to net cash provided by operating activities, net of effects of acquisition (see Note 9):			
Depreciation and amortization	9,974,174	-	9,974,174
Gain on disposal of property and equipment	(78,800)	-	(78,800)
Provision for bad debts	11,180,194	-	11,180,194
Capital grants and contributions	-	180,747	180,747
(Increase) decrease in operating assets, net of effects of acquisition (see Note 9):			
Patient accounts receivable, net	(14,031,042)	-	(14,031,042)
Other receivables	(159,476)	-	(159,476)
Inventories	(139,084)	-	(139,084)
Prepaid expenses	445,869	-	445,869
Increase (decrease) in operating liabilities, net of effects of acquisition (see Note 9):			
Accounts payable	(16,991)	-	(16,991)
Accrued payroll, compensated absences and payroll related liabilities	827,932	-	827,932
Accrued expenses and other liabilities	454,304	-	454,304
Estimated third-party payor settlements	(136,295)	-	(136,295)
Total adjustments	8,320,785	180,747	8,501,532
Net cash provided by operating activities	$ 13,719,932	$ 53,107	$ 13,773,039
Supplemental schedule of noncash investing, capital and financing activities:			
Refinance of long-term debt (see Note 11)	$ 17,780,000	$ -	$ 17,780,000
Capital lease obligations for equipment	$ 552,858	$ -	$ 552,858

See accompanying notes to the combined financial statements.

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

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)

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
Cash and cash equivalents included in assets limited as to use	44,179,098	732,748	44,911,846
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)	$ 8,934,628	$ (112,340)	$ 8,822,288
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
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	12,261,352	183,703	12,445,055
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.

(1) Nature of operations

(a) Organization

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 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 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 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 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 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 (FASB) 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 and investments from donors through the Foundation. Investments are reported at fair value in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

(e) Property and equipment

Property and equipment 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) Goodwill and other intangible assets

The Medical Center evaluates goodwill and intangible assets for impairment on an annual basis or more frequently if impairment indicators arise. In the event goodwill is considered to be impaired, a charge to earnings would be recorded during the period in which management makes such impairment assessment.

(i) 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.

(j) 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.

(k) 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.

(l) 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 financial statements.

(m) 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 2012 and 2011, $1,032 and $427, respectively, of net assets were released from restrictions and reclassified from restricted to unrestricted.

(n) 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.

(o) 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. These costs are estimated based on the ratio of total costs to gross charges. 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.

(p) 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 income (expenses). Amounts restricted to capital acquisitions are reported as other increases in net assets.

(q) New accounting pronouncements

In November 2010, accounting standards relating to the inclusion of component units in the financial reporting entity were amended to require inclusion if a financial benefit or burden is present or if the financial statements would be misleading if excluded. This also amended the criteria for reporting component units as if they are part of the primary government. These amendments are effective for financial statements for fiscal years beginning after June 15, 2012. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2013.

In December 2010, accounting standards relating to the application of FASB Statements that do not contradict GASB pronouncements were amended to incorporate into the GASB authoritative literature certain accounting and financial reporting guidance and to bring all authoritative literature together in one place. These amendments are effective for financial statements for fiscal years beginning after December 15, 2011. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2013.

In March 2012, accounting standards relating to accounting for operating lease payments that vary from a straight-line basis were amended to clarify how to apply GASB Statement 13. These amendments are effective for financial statements for fiscal years beginning after December 15, 2012. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2014.

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

(r) Use of estimates

The preparation of the 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.

(s) Reclassifications

Certain reclassifications have been made to the 2011 financial statements in order for them to conform to the 2012 presentation. These reclassifications have no effect on the net assets or the excess of revenues over expenses as previously reported.

(t) Performance indicator

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

(u) Events occurring after reporting date

The Medical Center has evaluated events and transactions that occurred between June 30, 2012 and September 25, 2012, 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 classified as Level 1, the Medical Center had approximately $5,000,000 in certificates of deposit as of June 30, 2011 that would be classified as Level 2 under the hierarchy above. The Medical Center had no certificates of deposit as of June 30, 2012. The Medical Center does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2012 and 2011.

(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, and goodwill, 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, 2012 and 2011, 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, 2012 and 2011.

(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 statements of revenues, expenses and changes in net assets is as follows:

	2012	2011
Gross patient service charges	$ 417,329,191	$ 402,533,575
Less: Medicare contractual adjustments	(124,922,195)	(119,619,140)
TennCare contractual adjustments	(22,769,835)	(22,829,260)
Other contractual adjustments	(110,599,079)	(104,356,757)
Bad debt	(11,180,194)	(10,570,824)
Charity Care	(2,697,080)	(2,586,872)
Net patient service revenue	$ 145,160,808	$ 142,570,722

Net patient accounts receivable consists of the following:

	2012	2011
Commercial and managed care plans	$ 10,087,544	$ 8,670,972
Medicare	4,296,310	3,398,009
TennCare	868,955	705,289
Patients, including self-insured	11,494,545	9,291,277
	26,747,354	22,065,547
Less: allowance for uncollectible accounts	(8,230,521)	(6,608,348)
	$ 18,516,833	$ 15,457,199

(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 $45,224,000 and $4,464,000, respectively, in 2012 and approximately $46,074,000 and $3,518,000, respectively, in 2011.

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:

	2012	2011
Cash and certificates of deposits restricted by Board for capital improvements	$ 45,459,753	$ 41,520,854
Cash restricted by Board for bond principal and interest payments	2,665,746	2,658,244
Cash and cash equivalents restricted by donors	105,867	-
Investments restricted by donors	716,889	732,748
Assets limited as to use	$ 48,948,255	$ 44,911,846

Balances consist of cash and mutual funds at June 30, 2012 and cash, mutual funds and certificates of deposit at June 30, 2011. 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 assets limited as to use relating to the primary enterprise at June 30, 2012 and 2011 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 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 approximated $1,700,000. The Medical Center subsequently made this payment.

(8) Property and equipment

The major classifications and changes in property and equipment as of and for the years ended June 30, 2012 and 2011 are as follows:

	Balance at June 30, 2011	Additions/ Transfers	Transfers/ Retirements	Balance at June 30, 2012
Land	$ 7,449,198	$ -	$ -	$ 7,449,198
Land improvements	2,383,068	-	-	2,383,068
Building and fixed equipment	130,278,226	2,051,387	-	132,329,613
Equipment	62,981,182	10,769,739	(170,986)	73,579,935
Equipment under capitalized leases	14,068,532	552,858	-	14,621,390
	217,160,206	13,373,984	(170,986)	230,363,204
Less allowance for depreciation and amortization:				
Land improvements	2,123,729	94,026	-	2,217,755
Building and fixed equipment	35,140,071	4,240,968	-	39,381,039
Equipment	51,370,966	4,310,514	(148,247)	55,533,233
Equipment under capitalized leases	8,702,381	1,318,481	-	10,020,862
Total accumulated depreciation and amortization	97,337,147	9,963,989	(148,247)	107,152,889
	119,823,059	3,409,995	(22,739)	123,210,315
Construction in progress, net	790,577	8,447,863	(9,145,648)	92,792
	$120,613,636	$ 11,857,858	$ (9,168,387)	$123,303,107

	Balance at June 30, 2010	Additions/ Transfers	Transfers/ Retirements	Balance at June 30, 2011
Land	$ 6,513,813	$ 935,385	$ -	$ 7,449,198
Land improvements	2,226,518	156,550	-	2,383,068
Building and fixed equipment	120,305,670	9,972,556	-	130,278,226
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

Construction in progress at June 30, 2012 consists primarily of renovations to department offices and software upgrades. Estimated costs to complete these projects amount to approximately $800,000 at June 30, 2012.

During 2012, the Medical Center transferred $935,385 from building and fixed equipment to land for more appropriate classification. The 2011 schedule was reclassified to reflect this transfer.

(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, the Medical Center's ownership interest in the Surgery Center was approximately 48%. For the year ended June 30, 2011, the Medical Center received $71,205 in distributions from the joint venture.

In August 2011 and June 2012, the Medical Center purchased the remaining 52% ownership interest in Williamson Surgery Center, LLC (the "Surgery Center") for total consideration of $1,224,000. The Medical Center incurred transaction expenses totaling $326,000 related to the purchase which were expensed. Due to the change in control, the purchase was accounted for using the acquisition method of accounting. Under this method, the results of operations of the Surgery Center are included in the Medical Center's financial statements from the date control was obtained which was June 30, 2012 and the assets and liabilities of the Surgery Center were recorded at fair value. In accordance with generally accepted accounting principles, the difference between the fair value and the book value of the previously held equity investment was recorded as a gain on acquisition. The fair value of the interest was estimated by using a market approach. The measurement is based on significant inputs that are observable in the market, which include but are not limited to acquisition multiples. The acquisition of the Surgery Center was allocated as follows on June 30, 2012:

Cash	$ 251,982
Patient receivables	208,786
Inventory	132,056
Prepaid expenses	63,606
Property and equipment	321,029
Goodwill	1,767,469
Accounts payable	(77,085)
Accrued expenses and other liabilities	(107,852)
Long-term debt	(784,991)
Gain on acquisition	(551,000)
	$ 1,224,000

The Medical Center 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% at June 30, 2012 and 2011. Equity earnings are distributed based upon tons of laundry processed by S.H.S.

The Medical Center paid S.H.S. approximately $508,000 and $512,000 for laundry services for 2012 and 2011, respectively.

Summary information for the Surgery Center and S.H.S as of June 30, 2012 and 2011 and for the years then ended, is as follows (the Surgery Center total assets and total liabilities are not included below as of June 30, 2012 as these balances are included in the Medical Center's June 30, 2012 balance sheet):

	2012	2011
Total assets	$ 11,640,905	$ 12,948,362
Total liabilities	$ 4,046,573	$ 5,328,226
Net revenues	$ 12,520,612	$ 16,178,204
Net earnings	$ 661,787	$ 603,827
Medical Center's interest:		
Investment in joint ventures	$ 940,191	$ 690,036
Equity in earnings (losses) of joint ventures	$ 337,700	$ 123,967

(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 in 2012 and 2011, 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 $1,357,787 and $1,401,708 at June 30, 2012 and 2011, respectively.

(11) Long-term debt

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

	Balance at June 30, 2011	Additions	Reductions	Balance at June 30, 2012	Amounts Due Within One Year
Hospital Revenue and Tax Bonds Series 2004B	$ 11,590,000	$ -	$ 9,440,000	$ 2,150,000	$ -
Hospital Revenue and Tax Bonds Series 2004A	11,080,000	-	9,650,000	1,430,000	-
Hospital Revenue and Tax Refunding Bonds, Series 2008	1,860,000	-	1,860,000	-	-
General Obligation Refunding Bonds, Series 2012A	-	17,780,000	-	17,780,000	-
3.15% Note payable to bank (one-month LIBOR + 2.9%)	6,766,666	-	1,399,999	5,366,667	1,400,004
4.31% Note payable to bank	6,679,942	-	384,633	6,295,309	420,109
0.84% Note payable to bank (one-year LIBOR + .65%)	158,694	-	158,694	-	-
4.50% Note payable to bank	1,585,897	-	176,780	1,409,117	184,437

1.60% Note payable to bank (one-month LIBOR + 1.35%)	392,031	-	306,700	85,331	85,331
1.75% Note payable to bank (one-month LIBOR + 1.50%)	9,150,000	-	915,000	8,235,000	838,750
5.00% Note payable to bank (see Note 9)	-	784,991	-	784,991	94,024
	$ 49,263,230	$ 18,564,991	$ 24,291,806	$ 43,536,415	$ 3,022,655

	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

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 4.00% and are due through May 1, 2016.

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 4.125% and are due through May 1, 2015.

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 were paid off May 1, 2012.

In June 2012, the County issued $17,780,000 in General Obligation Refunding Bonds, Series 2012A (the Series 2012A Bonds) for the purpose of refunding a portion of the Series 2004B and 2004A Bonds ($8,790,000 of the Series 2004B Bonds and $8,990,000 of the Series 2004A Bonds). The Series 2012A Bonds bear interest at rates ranging from 2.000% to 4.000% and are due through May 1, 2025.

The Series 2004A, Series 2004B, and Series 2012A 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 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 1.60% 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. The 1.75% 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. As part of the acquisition of the remaining ownership interest in the Surgery Center (see Note 9), the Medical Center assumed a note payable to bank. The 5.00% note payable to bank is payable in monthly amounts of principal and interest of $11,250 through October 2019 and is secured by security interests in accounts receivable, equipment and general intangibles of the Surgery Center.

The debt service requirements at June 30, 2012 related to long term debt are as follows:

Year	Principal Maturities or Sinking Fund Requirements	Interest
2013	$ 3,022,655	$ 1,335,490
2014	9,885,815	1,099,883
2015	9,741,106	798,776
2016	3,156,350	674,132
2017	2,035,428	586,703
2018 - 2022	10,265,061	1,725,719
2023 - 2025	5,430,000	208,476
	$ 43,536,415	$ 6,429,179

The Medical Center did not capitalize any interest relating to construction projects in 2012 or 2011.

(12) Other receivables

Other current and long-term receivables at June 30, 2012 and 2011 include $403,666 and $678,854, 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 $2,101,000 and $2,095,000 in 2012 and 2011, 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, 2012. 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, 2012 and 2011 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:

	2012	2011
Healthcare services	$ 84,518,707	$ 80,111,209
General and administrative	58,946,165	57,515,678
	$ 143,686,320	$ 137,626,887

(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, 2012 are as follows:

Year	Capital Leases	Operating Leases
2013	$ 960,767	$ 1,907,965
2014	346,907	1,494,966
2015	149,795	1,180,901
2016	-	583,097
Total future minimum lease payments	1,457,469	$ 5,166,929
Less amounts representing interest of 4.00%-4.50%	(46,481)	
Present value of net minimum lease payments	$ 1,410,988	

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

	2012	2011
Balance at beginning of year	$ 2,236,069	$ 1,591,084
Additions	552,858	2,360,281
Reductions	(1,377,939)	(1,715,296)
Balance at end of year	1,410,988	2,236,069
Current portion of capital lease obligations	928,880	1,246,344
Capital lease obligations, excluding current portion	$ 482,108	$ 989,725

The Medical Center generates rental income primarily from operating leases of two medical office buildings. Rental revenue was $2,430,943 and $2,605,640 in 2012 and 2011, respectively, and is included in other revenue.

Future minimum rental revenue under noncancellable leases at June 30, 2012 is as follows:

Year	
2013	$ 1,863,000
2014	1,900,000
2015	1,806,000
2016	1,696,000
2017	1,730,000
	$ 8,995,000

Future minimum rental payments generally include minor annual increases for inflation. Rental income in excess of rent expense was $1,817,349 and $695,281 in 2012 and 2011, respectively. The increase from 2011 to 2012 primarily resulted from the the purchase of a building in March 2011 that was previously rented by the Medical Center.

(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 $10,000,000 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, 2012 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 financial statements. Total expenses under this program amounted to approximately $6,622,000 and $7,352,000 for the years ended June 30, 2012 and 2011, 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, certain mutual funds, 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 assets limited as to use 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.

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act ("collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Medical Center's operations.

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

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 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, 2012, and have issued our report thereon dated September 25, 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 Medical Center is responsible for establishing and maintaining effective 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 *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.

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

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 solely for the information and use 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 these specified parties.

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
September 25, 2012