

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.
(A Component Unit of Rutherford County, Tennessee)

AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

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INTRODUCTORY SECTION

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Roster of Officials

June 30, 2009

Board of Directors

Ernest Burgess, Chairman
Mike Nunley, Vice Chairman
Greg Lyles, Secretary/Treasurer
Carol Cook
Kaye Jernigan
Frankie Johnson
Paul Johnson
Eugene Patterson
Annie Ruth Uselton

Medical Advisor

George Smith, M.D.

Administrator

Charles M. King

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Care of Rutherford County, Inc.
Murfreesboro, Tennessee

I have audited the accompanying statement of net assets of Community Care of Rutherford County, Inc., a component unit of Rutherford County, Tennessee as of June 30, 2009, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the management of Community Care of Rutherford County, Inc. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America and requirements prescribed by the Comptroller of the Treasury, State of Tennessee. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community Care of Rutherford County, Inc., a component unit of Rutherford County, Tennessee, as of June 30, 2009, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 16, 2009, on my consideration of Community Care of Rutherford County Inc.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of my 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Management's discussion and analysis, excluded by management, is not a required part of the financial statements but is supplementary information required by the Government Accounting Standards Board. Management's discussion and analysis includes a narrative overview and analysis of financial activities, condensed financial information, analysis of budgetary changes, description of capital assets, long-term debt activity, and a description of currently known facts that are expected to have a material effect on the entity.

Joel D. Parks, P.C.

October 16, 2009

Community Care of Rutherford County, Inc.
Statement of Net Assets
June 30, 2009

ASSETS

Current:	
Cash and cash equivalents	\$ 1,668,652
Certificates of deposit	1,199,999
Accounts receivable, net	890,358
Accrued interest receivable	34,981
Inventories	28,948
Prepaid expenses	15,959
	<u>3,838,897</u>
Property and Equipment:	
Land improvements	3,883
Buildings and leasehold improvements	200,464
Transportation equipment	51,460
Furniture, fixtures, and equipment	544,544
Construction in progress	108,845
	<u>909,196</u>
Less: accumulated depreciation	<u>(389,872)</u>
	<u>519,324</u>
	<u>\$ 4,358,221</u>

LIABILITIES

Current:	
Accounts payable	\$ 138,019
Accrued salaries and wages payable	221,394
Accrued vacation payable	202,663
Accrued retirement payable	40,190
Accrued medicaid surcharge	24,290
Resident funds held in trust	43,671
	<u>670,227</u>
Noncurrent:	
Other Post-employment benefits obligation	<u>372,883</u>
	<u>372,883</u>
	<u>1,043,110</u>

NET ASSETS

Invested in capital assets	519,324
Unrestricted	2,795,787
	<u>\$ 3,315,111</u>

See Accompanying Notes to Financial Statements

Community Care of Rutherford County, Inc.
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2009

Operating Revenues	
Net resident service revenue	\$ 8,733,621
Other operating revenue	137,074
	<u>8,870,695</u>
Operating Expenses	
Medical and nursing services	3,006,357
Employee benefits	2,164,499
Therapy and purchased services	747,605
Administrative and general	760,652
Dietary services	637,870
Plant operation and maintenance	525,151
Housekeeping services	375,191
Bed license fees	291,475
Laundry and linen	167,119
Recreational activities	153,500
Childcare expenses	141,010
Social services	45,612
Depreciation	51,080
Other operating expense	36,739
Medical records	29,645
Property expense	10,400
	<u>9,143,905</u>
Net operating loss	<u>(273,210)</u>
Non-Operating Revenue (Expenses)	
Contributions received	29,053
Interest income	58,431
Dividend income	25,997
Interest expense	(134)
	<u>113,347</u>
Change in Net Assets	(159,863)
Net Assets - July 1, 2008	<u>3,474,974</u>
Net Assets - June 30, 2009	<u>\$ 3,315,111</u>

See Accompanying Notes to Financial Statements

Community Care of Rutherford County, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2009

<u>Cash flows from operating activities</u>	
Received from residents	\$ 8,757,667
Paid to suppliers for goods and services	(4,199,650)
Paid to employees for services	(4,793,274)
Net cash used by operating activities	<u>(235,257)</u>
<u>Cash flows from non-capital financing activities</u>	
Contributions received	29,053
Decrease in resident funds held in trust	3,854
Net cash provided by non-capital financing activities	<u>32,907</u>
<u>Cash flows from capital and related financing activities</u>	
Purchase of equipment	(122,135)
Interest paid	(134)
Recognition of long-term post employment obligation	372,883
Net cash provided by capital and related financing activities	<u>250,614</u>
<u>Cash flows from investing activities</u>	
Maturity of certificates of deposits	1,226,044
Purchase of certificate of deposits	(1,099,999)
Interest earned	62,373
Dividends	25,997
Net cash provided by investing activities	<u>214,415</u>
Net increase in cash	<u>262,679</u>
Cash and cash equivalents - July 1, 2007	1,405,973
Cash and cash equivalents - June 30, 2008	\$ <u><u>1,668,652</u></u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activity

Operating Loss	\$ (273,210)
<u>Adjustments to reconcile operating income to net cash flows from operating activities</u>	
Depreciation	51,080
Changes in assets and liabilities:	
Increase in accounts receivable	(113,028)
Decrease in inventories	3,459
Increase in prepaid expense	427
Increase in accounts payable	6,122
Increase in accrued salaries and wages payable	15,076
Increase in accrued vacation payable	69,423
Increase in accrued retirement payable	5,394
	<u>37,953</u>
Net cash used by operating activities	\$ <u><u>(235,257)</u></u>

See Accompanying Notes to Financial Statements

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements

June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Community Care of Rutherford County, Inc. (the Nursing Home) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The financial statements and footnotes are the representation of the Nursing Home's management.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Reporting Entity – Component Unit

As specified and described by Standard 14 of GASB, the Nursing Home is a component unit of the primary government of Rutherford County, Tennessee. The Nursing Home reports its financial information separately from Rutherford County; however, the County in its financial report, also discretely presents the Nursing Home's financial information.

Legally, the Nursing Home is a separate non-profit entity that has considerable legal, financial, and administrative autonomy. However, as the governing board is not elected, but is instead entirely appointed by the Rutherford County's Board of Commissioners, the Nursing Home cannot be a primary government. Instead, it qualifies as a component unit according to the directives of GASB.

GASB 14 specifies that component units must be legally separate organizations, which have financial accountability to a primary government. Financial accountability exists prima facie if a special-purpose government is not fiscally independent. GASB states that to be fiscally independent, the government has to have the authority to do all of three activities. One of these activities is to issue bonded debt without approval by another government. The Nursing Home may not issue debt without Rutherford County, Tennessee's approval, as the County remains contingently liable for all debt obligations. Because the Nursing Home is both a legal entity and financially accountable to the primary government of Rutherford County, as the County Commission approves all members of the governing board and by the nature of its fiscal dependence on Rutherford County as described above, it is a component unit of Rutherford County, Tennessee.

Basis of Presentation

The financial statements are prepared on the accrual basis of accounting, which recognizes revenues when earned and expenses when the liability is incurred.

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements (Cont.)

June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Basis of Presentation (Cont.)

As a component unit of Rutherford County, Tennessee, the financial statements of the Nursing Home are presented in the manner required by generally accepted governmental accounting principles for enterprise funds.

The Nursing Home has applied all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. Enterprise funds account for operations that are financed and operated in a manner similar to that of a private business. The intent of the governing body is that the costs (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

Cash, Cash Equivalents and Investments

Cash and cash equivalents consists of cash, demand deposits and short-term certificates of deposit with an original maturity of three months or less. At June 30, 2009, there were no certificates of deposit that qualified as cash equivalents. Investments were limited to certificates of deposit and were stated at fair value.

Inventories

Inventories consist of expendable supplies held for consumption and are valued at the lower of cost or market based on the first-in, first-out method.

Property and Equipment

Property and equipment is defined by the Nursing Home as assets with an initial, individual cost of \$1,000 or more and an estimated useful life of three years or longer. All property and equipment is valued at cost. Donated fixed assets are valued at their estimated fair value on the date donated. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Depreciation has been calculated using the straight-line method and estimated useful lives as follows:

Land improvements	10-20 years
Buildings and leasehold improvements	10-25 years
Transportation equipment	4-5 years
Furniture, fixtures and equipment	3-20 years

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements (Cont.)

June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Compensated Absences

Nursing Home employees accrue personal leave, or compensated absences, by a prescribed formula based on length of service. Compensated absences related to the Nursing Home's employees are recorded within the period earned.

Operating Revenues and Expenses

The Nursing Home's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its system. All other revenues and expenses are reported as non-operating revenues and expenses and consist of those revenues and expenses that are related to financing and investing type of activities and result from non-exchange transactions or ancillary activities.

Estimates

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

Income Taxes

No provision for accrued income taxes is reflected on the financial statements, as the Nursing Home is exempt from income taxes as a non-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

NOTE 2 – CASH AND CERTIFICATES OF DEPOSIT

The Nursing Home is authorized to make investments in bonds, notes or treasury bills of the United States, certificates of deposit at Tennessee state chartered or federally chartered banks and savings and loan associations, Federal Loan Bank bonds, Federal Home Loan Bank notes and bonds, Federal National Mortgage Association notes and debentures, banks or cooperative debentures, or any of its other agencies, or obligations guaranteed as to principal and interest by the United States or any of its agencies with a maturity not greater than one year, or in the pooled investment fund established under Tennessee law.

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements (Cont.)

June 30, 2009

NOTE 2 – CASH AND CERTIFICATES OF DEPOSIT (CONT.)

During the year ended June 30, 2009, the board of directors chose to limit the investment of funds to certificates of deposit at banks and savings and loan institutions. Cash reserves for operations were held in bank checking and savings accounts.

Cash – At June 30, 2009, the carrying amount of cash was \$1,668,652 and the bank balance was \$1,866,367. At June 30, 2009, the entire bank balance was covered by federal depository insurance or collateral held by the Tennessee Bank Collateral Pool. The Tennessee Bank Collateral Pool is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the members of the pool if the value of collateral is inadequate to cover a loss.

Certificates of Deposit – The certificates of deposit are insured by the Federal Deposit Insurance Corporation or the Tennessee Bank Collateral Pool.

NOTE 3 – ACCOUNTS RECEIVABLE

Receivables totaling \$890,358 as of June 30, 2009, were comprised of:

Resident service fees	\$965,358
Less: allowance for uncollectibles	(75,000)
Net resident service fees	<u>\$890,358</u>

Resident service revenue is reported at the estimated net realizable amounts from residents, third-party payers, and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Resident accounts receivable are due within 10 days after the issuance of the request for payment. Third-party payer receivables are usually collected within 60 days. Receivables past due more than 120 days are considered delinquent. Management, based on individual evaluation and specific circumstances, writes off delinquent accounts. Some delinquent accounts deemed to be collectible are placed with an attorney for collection. Management uses the allowance method in accordance with generally accepted accounting principles and presents revenue net of written off delinquent accounts.

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements (Cont.)

June 30, 2009

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 was as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Capital assets not depreciated</u>				
Construction in progress	\$ <u>83,542</u>	\$ <u>25,303</u>	\$ _____	\$ <u>108,845</u>
<u>Capital assets depreciated</u>				
Land improvements	3,883	-	-	3,883
Buildings and improvements	143,130	57,334	-	200,464
Transportation equipment	51,460	-	-	51,460
Furniture, fixtures and equipment	<u>505,046</u>	<u>39,498</u>	_____	<u>544,544</u>
	<u>703,519</u>	<u>96,832</u>	_____	<u>800,351</u>
<u>Accumulated depreciation</u>				
Land improvements	2,907	66	-	2,973
Buildings and improvements	44,745	10,932	-	55,677
Transportation equipment	50,585	750	-	51,335
Furniture, fixtures and equipment	<u>240,554</u>	<u>39,333</u>	-	<u>279,887</u>
Total	<u>338,791</u>	<u>51,081</u>	_____	<u>389,872</u>
Net capital assets	<u>\$448,270</u>	<u>\$71,054</u>	\$ _____	<u>\$519,324</u>

NOTE 5 – RESIDENT FUNDS HELD IN TRUST

At June 30, 2009, the Nursing Home had a fiduciary responsibility for funds in the amount of \$43,671 on behalf of residents. Of this amount, \$9,125 was held in a separate interest bearing cash account. \$23,190 was held in an interest bearing escrow account. \$100 was held as cash on hand as resident trust petty cash and \$11,256 was due from the facility's operating cash account as of June 30, 2009.

The Nursing Home is required to maintain a cash account as a depository for resident funds. The fund is restricted in use and can be accessed only for providing spending money for residents, purchasing supplies for residents with cash in the fund, or paying amounts due to the Nursing Home for resident care, providing the amount does not include monies stipulated for residents' use only. All funds are required to be placed in an insured interest-bearing account.

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements (Cont.)

June 30, 2009

NOTE 6 – LEASE COMMITMENT

The Nursing Home renewed on May 3, 2006, a lease agreement with Rutherford County, Tennessee for the use of the building it occupies. The Nursing Home, under terms of the lease, will incur no lease expense as long as the Nursing Home meets its responsibility to pay timely its cost of group health and life insurance premiums incurred. The lease term is five years, commenced on July 1, 2006, and ends on June 30, 2011.

During the fiscal year ended June 30, 2008, the Nursing Home incurred and paid group health and life insurance premiums amounting to \$916,212.

NOTE 7 – LITIGATION

The Nursing Home was a party to six lawsuits at June 30, 2009. Four legal firms are separately defending the Nursing Home in these matters. In all but two, the Nursing Home's attorney indicated that any loss, in those cases, would not exceed existing insurance coverage. In two other cases involving assessed fines by the Tennessee Department of Health of \$711,850 and \$1,500, the Nursing Home's attorney was unable to provide an evaluation of the likelihood of a favorable or unfavorable outcome. In absence of a measurable determination of loss, no contingent liability for litigation was recorded.

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Nursing Home grants credits without collateral to its residents, most whom are insured under third-party payer agreements. The receivables from residents and third-parties are comprised of:

Medicaid	34.05%
Medicare	31.83%
Private	18.49%
Insurance	15.63%

Approximately 82.36% of net resident revenue is derived from third-party payers.

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements (Cont.)

June 30, 2009

NOTE 9 – RISK FINANCING

The Nursing Home 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. The Nursing Home maintains commercial insurance coverage on each area of risk. Exposure is limited to claims in excess of standard policy limitations. The Nursing Home annually reviews its insurance needs based on claims and/or potential claims to minimize exposure. There were no claims in excess of insurance coverage during the past three years.

NOTE 10 – PENSION PLAN

Plan Description

Certain Employees of Rutherford County are members of the Tennessee Consolidated Retirement System (TCRS), an agent multiple-employer public employee retirement system pension (PERS) that acts as a common investment and administrative agent for political subdivisions in the state. The retirement plan for Community Care of Rutherford County, Inc. is included in the retirement program for Rutherford County. Therefore, separate retirement information for the Nursing Home is not available. Details relative to the funding status and progress, actuarially determined contribution requirements and contributions made, and trend information regarding the retirement plan can be found in the Comprehensive Annual Financial Report for Rutherford County. The Nursing Home's payroll for employees covered by TCRS for the year ended June 30, 2008, was \$3,574,500. Total contributions to the plan by the Nursing Home for the year ended June 30, 2008, amounted to \$493,071.

The TCRS is a defined benefit retirement plan covering teachers and general employees of the state as well as employees of political subdivisions that have elected coverage. Membership in the system is mandatory for state employees, teachers, and employees of participating political subdivisions. The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service.

A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment.

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements (Cont.)

June 30, 2009

NOTE 10 – PENSION PLAN (CONT.)

Plan Description (Cont.)

There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 were vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA).

Rutherford County is non-contributory and pays the total cost of pension compensation with the exception of certain employees whose contributions are identified in the pension plan footnote of the Comprehensive Annual Financial Report for Rutherford County.

NOTE 11 – POST-EMPLOYMENT BENEFITS

From an accrual accounting perspective, the cost of post-employment healthcare benefits, like the cost of pension benefits, generally should be associated with periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2009, the Nursing Home recognizes the cost of post-employment benefits in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in assessing potential demands on the Nursing Home's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years commencing with the 2009 liability.

Plan Description – In addition to the benefits described in Note 10, the Nursing Home is included under Rutherford County's post retirement health insurance plan. Rutherford County's plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee established by the County Commission.

An employee who retires from Rutherford County becomes eligible for retiree health coverage upon the earlier of attaining: age 55 with 15 years of service and active coverage for 5 continuous years, age 62 with 10 years of service and active coverage for 5 continuous years, or any age with 30 years of services and active coverage for 5 continuous years. An employee who becomes disabled becomes eligible for retiree health coverage if they are under age 65 and have completed at least 10 years of service prior to total disability termination. In addition, the employee must have had active coverage for a continuous 5 year period, and must have filed and qualified for Medicare disability coverage.

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements (Cont.)

June 30, 2009

NOTE 11 – POST-EMPLOYMENT BENEFITS (CONT.)

Plan Description (Cont.)

If retiree is eligible for health insurance coverage, health coverage is also provided for the retiree's spouse and/or dependent children. In the event of the retiree's death, the eligible surviving spouse and dependent children may elect to continue coverage until they would no longer qualify as dependents if the retiree were alive. Currently there are 8 retirees from the Nursing Home receiving benefits. The number of active participants of the plan as of January 1, 2008, the effective date of the bi-annual OPEB valuation, for the Nursing Home is 123 employees.

Funding Policy – Eligible retirees and dependents are required to share in the cost of health insurance coverage. Retirees under the age of 65 are required to contribute 50% of the active employee premium. Currently retirees age 65 and over are required to contribute amounts determined by Rutherford County. Effective May 1, 2009, current retirees and actives age 65 and over as of December 31, 2009 and actives that have completed 30 years of service as of December 31, 2009, will be required to contribute 25% of the adequate premiums for themselves and 50% of the adequate premiums for their spouses. Effective January 1, 2010, all other retirees, upon turning age 65, will be required to contribute 50% of the adequate premium for themselves and their spouses. This structure will be phased in over 4 years (2010 – 2013) such that contributions will be approximately 32% in 2010, 38% in 2011, 44% in 2012, and 50% in 2013 and thereafter.

For anyone hired after February 12, 2009, the following applies: (1) an employee who retires from Rutherford County become eligible for retiree health coverage upon the earlier of attaining age 60 with 20 years of service and active coverage for 15 continuous years or any age with 30 years of service and active coverage for 15 continuous years. (2) no prescription drug coverage will be provided post age 65, and (3) the county contribution will be limited to the lesser of \$300 per month or the actual cost of coverage.

Annual OPEB and Net OPEB Obligation – The components of the annual required contribution (ARC) and the net OPEB obligation are as follows for Community Care of Rutherford County, Inc.:

Annual required contributions (ARC) and OPEB Cost	\$390,126
Interest on the NPO	<u>0</u>
Annual OPEB cost	390,126
Amount of annual contribution (at 4.42%)	<u>(17,243)</u>
Increase/decrease in NPO	372,883
Net OPEB obligation, June 1, 2008	<u>0</u>
Net OPEB obligation, June 30, 2009	<u>\$372,883</u>

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements (Cont.)

June 30, 2009

NOTE 11 – POST-EMPLOYMENT BENEFITS (CONT.)

Funded Status and Funding Progress – The funding status and funding progress of the plan as of June 30, 2009, for Community Care of Rutherford County, Inc. is as follows:

Actuarial valuation date	January 1, 2008
Actuarial accrued liability (AAL)	\$2,209,729
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	2,209,729
Actuarial value of assets as a % of the AAL	0%
Covered payroll (active plan members)	4,390,309
UAAL as a % of covered payroll	50%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Assumptions and methods – Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the January 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9% for 2008, grading down to 5.5% for 2008 and beyond. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis over a 30 year period beginning with June 30, 2009.

NOTE 12 – HEALTH CARE REGULATIONS

The health care 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 health care program participation requirements, reimbursement for patient/resident services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Notes to Financial Statements (Cont.)

June 30, 2009

NOTE 12 – HEALTH CARE REGULATIONS (CONT.)

Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient/resident services previously billed. Management believes that the Nursing Home is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. 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.

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

**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 Directors
Community Care of Rutherford County, Inc.
Murfreesboro, Tennessee

I have audited the financial statements of Community Care of Rutherford County, Inc., a component unit of Rutherford County, Tennessee, as of and for the year ended June 30, 2009, and have issued my report thereon dated October 16, 2009. I conducted my 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 of America.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Community Care of Rutherford County, Inc.'s internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Community Care of Rutherford County, Inc.'s internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Community Care of Rutherford County, Inc.'s internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nursing Home's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a

remote likelihood that a misstatement of the Nursing Home' financial statements that is more than inconsequential will not be prevented or detected by Nursing Home' internal control.

I consider the deficiency described in the accompanying schedule of findings and responses, identified as item 1, to be a significant deficiency in internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe the significant deficiency described is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Care of Rutherford County, Inc.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Community Care of Rutherford County, Inc.'s response to the finding identified in my audit is described in the accompanying schedule of findings and responses. I did not audit Community Care of Rutherford County, Inc.'s response, and accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, the Tennessee State Comptroller's Office and other regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Joel D. Parks, P.C.

October 16, 2009

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Schedule of Findings and Responses

June 30, 2009

PART I - SUMMARY OF AUDITOR'S RESULTS

1. An unqualified opinion was issued on the financial statements of the Nursing Home.
2. The audit of the financial statements disclosed one significant deficiency in internal control.
3. The audit of the financial statements disclosed no instances of noncompliance.
4. The Nursing Home expended less than \$500,000 in federal funds.

PART II - FINDINGS AND QUESTIONED COSTS REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING PROCEDURES

1. **Purchasing Procedures**

Several transactions were noted in our examination that illustrated the failure to acknowledge receipt of goods purchased. Additionally, several purchase orders were found to missing, unsigned, undated or dated subsequent to the purchase date. None of these transactions were found to be material in nature.

Recommendation

Officials of the Nursing Home should continue to monitor purchasing procedures to minimize deficiencies in its operations.

Management's Response

We will continue to work to correct these deficiencies.

PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

COMMUNITY CARE OF RUTHERFORD COUNTY, INC.

Disposition of Prior Year Findings

June 30, 2009

PRIOR YEAR AUDIT RECOMMENDATIONS NOT IMPLEMENTED

(REF: Audited Financial Statements for the FYE June 30, 2008)

<u>Finding</u>	<u>Page Number</u>	<u>Subject</u>
1	17	Purchasing Procedures

PRIOR YEAR AUDIT RECOMMENDATIONS IMPLEMENTED

(REF: Audited Financial Statements for the FYE June 30, 2008)

None