

BEDFORD COUNTY NURSING HOME

SHELBYVILLE, TENNESSEE

AUDITED FINANCIAL STATEMENTS

June 30, 2009

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INTRODUCTORY SECTION

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Board of Trustees and Administrator

June 30, 2009

Eugene Ray, Chairman

Joe Tillett

John Brown

P.T. Biff Farrar

Phillip Vincent

Wayne Schumann, Administrator

FINANCIAL SECTION



JOB, HASTINGS & ASSOCIATES

Certified Public Accountants

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Donna K. Hastings, CPA, CSEP

James R. Jobe, CPA

Joel H. Jobe (1944 - 2006)

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bedford County Nursing Home
Shelbyville, Tennessee

We have audited the accompanying financial statements of Bedford County Nursing Home, a separately reported fund of Bedford County, Tennessee as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of Bedford County Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Bedford County Nursing Home fund and do not purport to, and do not, present fairly the financial position of Bedford County, Tennessee, as of June 30, 2009, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bedford County Nursing Home, a separately reported fund of Bedford County, Tennessee, as of June 30, 2009, and the changes in financial position and cash flows thereof for the year 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 November 13, 2009 on our consideration of Bedford County Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Bedford County Nursing Home has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements. The management's discussion and analysis includes a narrative overview and analysis of financial activities, condensed financial information, analysis of budgetary changes, description of capital asset and long-term debt activity, and a description of currently known facts that are expected to have a material effect on the entity.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Bedford County Nursing Home's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

John, Hastings & Associates
Certified Public Accountants

Murfreesboro, Tennessee
November 13, 2009

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Balance Sheet

June 30, 2009

<u>ASSETS</u>	
Current Assets-	
Cash	\$ 375,006
Patient accounts receivable, net of allowance of \$201,963	660,483
Estimated third-party payor settlements	63,163
Inventory	8,056
Prepaid expenses	86,892
	<u>TOTAL CURRENT ASSETS</u>
	\$ <u>1,193,600</u>
Assets limited as to use	\$ <u>71,617</u>
Property and Equipment-	
Land	\$ 150,149
Land improvements	24,547
Building and improvements	1,381,256
Equipment	1,154,446
	<u>2,710,398</u>
Less: Accumulated depreciation	<u>(1,540,111)</u>
	<u>TOTAL ASSETS</u>
	\$ <u><u>2,435,504</u></u>
<u>LIABILITIES</u>	
Current Liabilities-	
Accounts payable - trade	\$ 182,694
Accrued salaries and wages payable	151,675
Accrued expenses	1,811
Accrued payroll taxes and employee withholdings	7,481
Patients' funds held in trust	34,255
Due to Bedford County	243,004
	<u>TOTAL CURRENT LIABILITIES</u>
	\$ <u>620,920</u>
<u>NET ASSETS</u>	
Net Assets -	
Invested in capital assets, net of related debt	\$ 1,170,287
Unrestricted net assets	644,297
	<u>TOTAL LIABILITIES AND NET ASSETS</u>
	\$ <u><u>2,435,504</u></u>

See notes to financial statements.

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2009

Operating Revenue -		
Patient service revenue	\$	7,016,426
Net allowance for contractual adjustments		91,681
	NET PATIENT SERVICE REVENUE	\$ 7,108,107
Other revenue		4,636
	TOTAL OPERATING REVENUE	\$ 7,112,743
Operating Expenses -		
Medical and nursing	\$	3,018,542
Employee benefits		813,781
Therapy and ancillary services		734,342
Administrative and general		638,818
Dietary services		616,058
Plant operation and maintenance		368,246
Bed license fees		239,076
Housekeeping services		173,666
Laundry and linen		137,615
Depreciation		120,418
Medical records		57,155
Social services		47,095
Recreational activities		42,941
Other operating expenses		17,015
	TOTAL OPERATING EXPENSES	\$ 7,024,768
	OPERATING INCOME	\$ 87,975
Non-Operating Revenue (Expense) -		
Interest income	\$	59
Interest expense		(275)
		\$ (216)
	CHANGE IN NET ASSETS	\$ 87,759
	NET ASSETS AT BEGINNING OF YEAR	1,726,825
	NET ASSETS AT END OF YEAR	\$ 1,814,584

See notes to financial statements.

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Statement of Cash Flows

For the Year Ended June 30, 2009

Cash Flows from Operating Activities -		
Received from residents and third-party payors	\$	6,693,782
Received from others		4,636
Paid to suppliers for goods and services		(3,296,706)
Paid to employees for services		(3,668,393)
NET CASH USED FOR OPERATING ACTIVITIES	\$	<u>(266,681)</u>
Cash Flows from Capital and Related Financing Activities -		
Principal paid on capitalized lease obligations	\$	(7,360)
Interest paid on capitalized lease obligations		(275)
Purchases of equipment and building improvements		<u>(78,515)</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	\$	<u>(86,150)</u>
Cash Flows from Investing Activities -		
Interest received on bank deposits	\$	<u>59</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$	<u>59</u>
	NET DECREASE IN CASH	\$ (352,772)
Cash, July 1, 2008		<u>765,140</u>
	CASH, JUNE 30, 2009	<u><u>412,368</u></u>

See notes to financial statements.

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Statement of Cash Flows (continued)

For the Year Ended June 30, 2009

Reconciliation of Operating Income to Net Cash Used For Operating Activities -		
Operating income	\$	87,975
Adjustments to reconcile operating loss to net cash		
flows from operating activities -		
Depreciation		120,418
Provision for bad debts		151,085
Changes in assets and liabilities -		
Increase in patient accounts receivable		(404,886)
Increase in estimated third-party payor settlement		(9,439)
Decrease in prepaid expenses		12,005
Decrease in accounts payable-trade		(12,184)
Decrease in accounts payable-other		(161,785)
Decrease in accrued salaries and wages payable		(10,407)
Increase in accrued expenses		572
Decrease in accrued payroll taxes and employee withholdings		(40,035)
NET CASH USED FOR OPERATING ACTIVITIES	\$	<u>(266,681)</u>
Non-Cash Capital and Related Financing Activities -		
Equipment costs included in accounts payable	\$	1,333
Equipment purchased by primary government		74,000
	\$	<u>75,333</u>
Reconciliation to Cash Presented in Balance Sheet -		
Cash	\$	375,006
Cash - memorial fund (see Note M)		37,362
	\$	<u>412,368</u>

See notes to financial statements.

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Notes to Financial Statements

June 30, 2009

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Bedford County Nursing Home (the Nursing Home) is presented to assist in understanding the Nursing Home's financial statements. The financial statements and notes are representations of the Nursing Home's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles.

Financial Reporting Entity – Bedford County Nursing Home was organized by the Bedford County Board of Commissioners and is a separately reported fund of Bedford County, Tennessee (the County). The Nursing Home is administered by a Board of Trustees appointed by the County Commission. The County has authorized the Board of Trustees to manage the operations of the nursing home. The nursing home may not issue bond debt without the County's approval. The Nursing Home is not a legal entity separate and apart from the County and, accordingly, it is blended as an enterprise fund as part of the financial statements of the County.

At June 30, 2009 , there were related receivables or payables between Bedford County and the Nursing Home as described in Note I.

Basis of Presentation - The financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Nursing Home has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting*, to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The accounting and financial reporting treatment applied to the Nursing Home is determined by its measurement focus. The transactions of the Nursing Home are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e. total assets net of total liabilities) are segregated into invested in capital assets, net of related debt and unrestricted components.

Cash Flow – Cash and Cash Equivalents - Bedford County Nursing Home presents its cash flow statement using the direct method. For purposes of cash flow presentation, the Nursing Home considers cash in operating bank accounts, cash on hand, and certificates of deposit, which have original maturities of three months or less as cash and cash equivalents. There were no cash equivalents at June 30, 2009 .

Patient Service Revenue and Accounts Receivable - Patient 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 payer 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. The Nursing Home does not have a formal policy regarding accrual of interest income on past due receivables.

Allowance for Doubtful Accounts – The Nursing Home uses the allowance method to account for uncollectible accounts receivable. The allowance for doubtful accounts was \$201,963 at June 30, 2009. Management considers the following factors when determining the collectibility of specific patient accounts: patient's credit-worthiness, past transaction history with the patient, current economic and industry trends, and changes in the patient's payment terms. If the financial condition of the nursing home's patients were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Accounts receivable are continually evaluated to identify amounts that are uncollectible and those amounts are written off when all collection attempts have been exhausted.

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Notes to Financial Statements (continued)

June 30, 2009

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories – Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment - Property and equipment are stated at cost. Generally, purchases in excess of \$500 are capitalized. For financial statement purposes, depreciation of property and equipment is provided using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements. The general range of useful lives estimated for property and equipment is 3 to 50 years. Maintenance and repairs are charged to operations when incurred. The Nursing Home eliminates the costs and related allowances from the accounts for properties sold or retired, and any resulting gains or losses are included in income.

Compensated Absences - Nursing Home employees accrue vacation, sick and holiday time, or compensated absences, by a prescribed formula based on length of service. Compensated absences related to the nursing home employees are recorded within the period earned.

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 – The Nursing Home, as a separately reported fund of Bedford County, is an exempt organization as described in section 501(a) of the United States Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes.

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 facility. 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.

Note B – CASH AND CASH EQUIVALENTS

Interest Rate Risk and Concentration of Credit Risk – The Nursing Home does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Nursing Home places no limit on the amount it may invest in any one issuer.

Credit Risk – The Nursing Home is authorized to make investments in bonds, notes or treasury bills of the United States, 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.

During the year ended June 30, 2009, the board of trustees chose to limit the investment of funds to demand deposits at banking institutions.

At June 30, 2009, the carrying amount of cash deposits, including patient funds, was \$446,623 and the bank balance was \$736,886. At June 30, 2009, the entire bank balance was covered by federal depository insurance, or by collateral held in 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.

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Notes to Financial Statements (continued)

June 30, 2009

Note C – CAPITAL ASSETS

Capital assets are summarized as follows:

	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions/ Other</u>	<u>June 30, 2009</u>
Capital assets, not being depreciated				
Land	\$ 150,149			\$ 150,149
Construction in progress	1,800	\$	\$ (1,800)	-
Subtotal	<u>\$ 151,949</u>	<u>\$ -</u>	<u>\$ (1,800)</u>	<u>\$ 150,149</u>
Capital assets, being depreciated -				
Land improvements	\$ 24,547			\$ 24,547
Building and improvements	1,340,699	\$ 38,757	\$ 1,800	1,381,256
Departmental equipment	609,209	115,091		724,300
Fixed Equipment	330,753			330,753
Dietary Equipment	99,393			99,393
Subtotal	<u>\$ 2,404,601</u>	<u>\$ 153,848</u>	<u>\$ 1,800</u>	<u>\$ 2,560,249</u>
Less accumulated depreciation -				
Land improvements	\$ (24,547)			\$ (24,547)
Building and improvements	(761,561)	\$ (43,386)		(804,947)
Departmental equipment	(360,072)	(48,457)		(408,529)
Fixed equipment	(273,513)	(28,575)		(302,088)
Subtotal	<u>\$ (1,419,693)</u>	<u>\$ (120,418)</u>		<u>\$ (1,540,111)</u>
Capital assets, being depreciated, net	<u>\$ 984,908</u>	<u>\$ 33,430</u>		<u>\$ 1,020,138</u>
Total capital assets, net	<u>\$ 1,136,857</u>	<u>\$ 33,430</u>	<u>\$ -</u>	<u>\$ 1,170,287</u>

Depreciation expense for the year ended June 30, 2009 was \$120,418.

Note D - PATIENT FUNDS HELD IN TRUST

At June 30, 2009, the Nursing Home had a fiduciary responsibility for funds in the amount of \$34,255 held on behalf of the residents.

The Nursing Home is required to maintain a cash account as a depository for patient funds. The fund is restricted in use and can be used only for providing spending money for patients, purchasing supplies for patients with cash in the fund, or paying amounts due to the Nursing Home for patient care, provided the amount does not include monies stipulated for patients' use only. All funds in excess of \$100 per recipient are required to be placed in an insured interest-bearing account.

Note E - PENSION PLAN

Plan Description - Employees of Bedford County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). 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 thirty years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Notes to Financial Statements (continued)

June 30, 2009

Note E - PENSION PLAN (continued)

is in performance of duty. Members joining the system on or after July 1, 1979 become 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).

State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Bedford County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://treasury.state.tn.us/tcrs/PS/>.

The retirement plan for Bedford County Nursing Home is included in the total retirement program for Bedford 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 contribution made, and trend information regarding the retirement plan can be found in the Comprehensive Annual Financial Report for Bedford County. Total contributions to the plan by the Nursing Home for the year ended June 30, 2009 amounted to \$118,391. Bedford County requires employees to contribute 5.0 percent of earnable compensation and Bedford County is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2009 was 5.31% of annual covered payroll.

Note F - CONCENTRATION OF CREDIT RISK

The Nursing Home grants credits without collateral to its patients, most of who are insured under third-party payor agreements. Approximately 76% of net patient revenue is derived from third-party payers. The mix of receivables from patients and third-party payors are as follows:

Medicaid	40 %
Medicare	24 %
Private	24 %
Insurance	12 %

Note G - RISK MANAGEMENT

Risks related to the operation of the Nursing Home are managed through the purchase of commercial insurance policies. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. Information related to insurance coverage is as follows:

Worker's Compensation Coverage - The Nursing Home's workers' compensation policy was issued with liability limits of \$100,000 per individual per accident with a policy limit of \$500,000. This is a retrospectively rated policy, a policy in which the initial premium is adjusted based on actual experience during the period of coverage.

Comprehensive Liability Coverage - The Nursing Home's liability policy was issued by various casualty companies. The policies provide general and professional liability coverage of \$1,000,000 per occurrence with a maximum liability limit of \$3,000,000.

Property Coverage - The Nursing Home's property insurance coverage had liability limits of \$6,803,000 for the buildings and personal property, \$1,000,000 for auto, and \$554,000 for blanket business income.

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Notes to Financial Statements (continued)

June 30, 2009

Note H - 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 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. 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 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.

Note I - RELATED PARTY TRANSACTIONS

In a prior year, certain improvements were made to the facility that was financed through an advance from Bedford County. The remaining balance due the County as of June 30, 2009 is \$243,004.

The County maintains possession of funds amounting to \$37,362 for the Nursing Home's designated memorial fund. This amount is presented in the financial statements as "Assets limited as to use" (see Note L).

Note J - CAPITAL LEASES

During the fiscal year ended June 30, 2006 the Nursing Home entered into various lease agreements as lessee for financing the acquisition of equipment. These lease agreements are treated as capital leases for accounting purposes and, therefore, have been reported at the present value of the future minimum lease payments.

The assets acquired through capital leases are as follows:

Copier	\$	22,935
Telephone system		<u>32,745</u>
	\$	55,680
Less: accumulated amortization		<u>(19,653)</u>
Total capital lease assets, net	\$	<u>36,027</u>

Changes in long-term obligations for the year ended June 30, 2009, are as follows:

	<u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>
Capital leases	\$ 7,360		\$ 7,360	\$ 0

Note K - LITIGATION

The Nursing Home is subject to claims and suits which arise in the ordinary course of business. In November of 2008, a resident died as a result of falls and alleged acts of negligence. Subsequent to the end of the fiscal year, a complaint was filed by the resident's estate. In the opinion of management, the ultimate resolution of such pending legal proceedings has been adequately provided for through commercial insurance.

Note L - ASSETS LIMITED AS TO USE

Certain asset amounts have been presented in the financial statements as limited as to their use. The details of these amounts are as follows:

Cash in Memorial Fund	\$	37,362
Patient funds held in trust		<u>34,255</u>
Total assets limited as to use	\$	<u>71,617</u>

BEDFORD COUNTY NURSING HOME

Shelbyville, Tennessee

Notes to Financial Statements (continued)

June 30, 2009

Note M – DESIGNATED UNRESTRICTED NET ASSETS

Certain asset amounts have been internally designated by the board of directors. The details of these amounts are as follows:

Cash in Memorial Fund (See Note L)	\$	<u>37,362</u>
Designated Unrestricted Net Assets	\$	<u>37,362</u>
Undesignated Unrestricted Net Assets		<u>606,935</u>
Unrestricted Net Assets	\$	<u>644,297</u>

Note N – SUBSEQUENT EVENT

Subsequent to year end the nursing home building and the related operations were leased to Christian Care Management, LLC. Therefore, during the term of this lease, the nursing home will no longer be operated by Bedford County. The initial lease is for a period of five years.

INTERNAL CONTROL AND COMPLIANCE SECTION



JOB, HASTINGS & ASSOCIATES

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Bedford County Nursing Home
Shelbyville, Tennessee

We have audited the financial statements of Bedford County Nursing Home, a separately reported fund of Bedford County, Tennessee, as of and for the year ended June 30, 2009 which comprise Bedford County Nursing Home's basic financial statements, and have issued our report thereon dated November 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Bedford County Nursing Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bedford County Nursing Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bedford County Nursing Home's internal control over financial reporting.

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

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 Bedford County 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 Bedford County Nursing Home's financial statements that is more than inconsequential will not be prevented or detected by the Bedford County Nursing Home's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. [2009-1], [2009-2], [2009-3], [2009-4]

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 Bedford County Nursing Home's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above [2009-1], [2009-2], [2009-3], and [2009-4] to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bedford County Nursing Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of trustees of Bedford County Nursing Home, management, state and federal audit agencies, and Bedford County and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

John Hastings & Associates
Certified Public Accountants

Murfreesboro, Tennessee
November 13, 2009

BEDFORD COUNTY NURSING HOME

Schedule of Findings and Responses

Year Ended June 30, 2009

FINDINGS – FINANCIAL STATEMENTS AUDIT

2009-1.

Condition: The former human resource director had authority to write manual checks, had the ability to manipulate vacation hours within the computer program and had the authority to generate both electronic signatures that are required on all payroll checks.

Criteria: The design and operation of internal control should be sufficient to allow appropriate personnel, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Specifically, the internal control system should include processes and procedures to detect unrecorded or improperly recorded transactions.

Effect: Unauthorized checks were written and then went undetected for a period of time.

Recommendation: Proper segregation of duties should be in place to prevent one person from having authority to perform all steps of the payroll process.

Response: The Bedford County Nursing Home is no longer in operation. As of August 1, 2009 the business was leased to Christian Care Center, LLC and is doing business as Christian Care Center of Bedford County. As a result of the transfer of operation, new management systems have been put in place and will correct the issue.

2009-2.

Condition: Monthly bank reconciliations were not reviewed on a regular basis by management. Unauthorized checks cleared the bank and were reconciled in the books without detection.

Criteria: The design and operation of internal control should be sufficient to allow appropriate personnel, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Specifically, the internal control system should include processes and procedures to detect unrecorded or improperly recorded transactions.

Effect: Management posted the proposed entries without reviewing details in the bank reconciliation. As a result, unusual manual checks were not detected during the bank reconciliation and the fraudulent checks cleared the bank undetected.

Recommendation: Management should review bank reconciliations and obtain an understanding of all adjustments.

Response: The Bedford County Nursing Home is no longer in operation. As of August 1, 2009 the business was leased to Christian Care Center, LLC and is doing business as Christian Care Center of Bedford County. As a result of the transfer of operation, new management systems have been put in place and will correct the issue.

BEDFORD COUNTY NURSING HOME

Schedule of Findings and Responses

Year Ended June 30, 2009

2009-3.

Condition: All checks issues by the nursing home require dual signatures. However, access to both required signatures was granted to individuals other than those to whom the signatures belonged. Accounts payable checks and payroll checks are electronically signed.

Criteria: The design and operation of internal control should be sufficient to allow appropriate personnel, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Specifically, the internal control system should include processes and procedures to detect unrecorded or improperly recorded transactions.

Effect: The internal control envisioned through the use of dual signatures is effectively negated. The checks were not reviewed by another individual after they were electronically signed. This then gave the individual with the access to the signatures the ability to negotiate checks without any review.

Recommendation: Management should improve segregation of duties to require that more than one employee review signed checks before they are issued or establish separate authority for each electronic signature.

Response: The Bedford County Nursing Home is no longer in operation. As of August 1, 2009 the business was leased to Christian Care Center, LLC and is doing business as Christian Care Center of Bedford County. As a result of the transfer of operation, new management systems have been put in place and will correct the issue.

2009-4.

Condition: Audit adjustments were required because the allowance for doubtful accounts and bad debt expense were materially understated.

Criteria: The design and operation of internal control should be sufficient to allow appropriate personnel, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Specifically, the internal control system should include processes and procedures to detect unrecorded or improperly recorded transactions.

Effect: The financial statements did not accurately reflect management's estimate of the net realizable value of accounts receivable prior to audit adjustments.

Recommendation: Those responsible for the design and operation of the Nursing Home's system of internal controls should receive adequate education and training to allow them to prevent or detect misstatements on a timely basis. Additionally, accounting staff should communicate in such a manner as to permit sufficient ongoing monitoring of the operation of internal controls.

Response: The Bedford County Nursing Home is no longer in operation. As of August 1, 2009 the business was leased to Christian Care Center, LLC and is doing business as Christian Care Center of Bedford County. As a result of the transfer of operation, new management systems have been put in place and will correct the issue.