

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Years Ended June 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Bledsoe County Nursing Home (a component unit
of Bledsoe County, Tennessee)

We have audited the accompanying financial statements of Bledsoe County Nursing Home (a component unit of Bledsoe County, Tennessee), as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bledsoe County Nursing Home (a component unit of Bledsoe County, Tennessee), as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2009, on our consideration of Bledsoe County Nursing Home's (a component unit of Bledsoe County,

Tennessee) 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 should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements of Bledsoe County Nursing Home (a component unit of Bledsoe County, Tennessee). Such information has been subjected to the auditing procedures applied in the audits as described above and in our opinion, is fairly presented in all material respects and in relation to the financial statements taken as a whole.

Burk, Pearlman, Hebbes & Huggins, PLLC

Chattanooga, Tennessee
October 1, 2009

BLEDSOE COUNTY NURSING HOME

Management's Discussion and Analysis

This discussion and analysis is intended to serve as an introduction to the June 30, 2009 and 2008 financial statements of the Bledsoe County Nursing Home ("BCNH"), a component unit of Bledsoe County, Tennessee. Please read it in conjunction with BCNH's audited financial statements.

The Financial Statements

The statements of revenues, expenses, and changes in net assets present the results of BCNH's operations. The statement reports all revenues and expenses and reconciles the beginning and end of year net asset balances.

The balance sheets include all of Bledsoe County Nursing Home's assets and liabilities as of June 30, 2009 and 2008. The statement also presents the balance of assets in excess of liabilities, or net assets.

The statements of cash flows supplement these statements providing relevant information about cash receipts and payments by the Bledsoe County Nursing Home.

The notes to the financial statements are an integral part of the financial statements and contain information necessary to obtain a complete view of BCNH's financial position.

Financial Highlights

BCNH assets exceeded its liabilities at June 30, 2009 and 2008.

Financial Analysis

Financial Position

Total assets, total liabilities and total net assets at June 30, 2009 and 2008, follow:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>Increase (Decrease)</u>
Current assets	\$ 734,989	\$ 813,871	\$ (78,882)
Assets limited as to use Resident trust fund	17,017	14,788	2,229
Property and equipment, net	<u>430,986</u>	<u>275,575</u>	<u>155,411</u>
TOTAL ASSETS	<u>\$ 1,182,992</u>	<u>\$ 1,104,234</u>	<u>\$ 78,758</u>
Current liabilities	\$ 341,256	\$ 202,385	\$ 138,871
Other liabilities Resident trust fund	<u>17,017</u>	<u>14,788</u>	<u>2,229</u>
TOTAL LIABILITIES	<u>358,273</u>	<u>217,173</u>	<u>141,100</u>

Management's Discussion and Analysis
(Continued)

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	Increase (Decrease)
Net assets			
Invested in capital assets, net of related debt	430,986	275,575	155,411
Unrestricted	<u>393,733</u>	<u>611,486</u>	(217,753)
Total net assets	<u>824,719</u>	<u>887,061</u>	(62,342)
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 1,182,992</u>	 <u>\$ 1,104,234</u>	 <u>\$ 78,758</u>

Operations

Components of the Nursing Home's operating revenues, operating expenses, and nonoperating income for the years ended June 30, 2009 and 2008, follow.

	<u>June 30, 2009</u>	<u>June 30, 2008</u>	Increase (Decrease)
Operating Revenues:			
Net patient service revenue	\$2,357,766	\$2,484,864	\$(127,098)
Rental income	12,000	12,000	--
Other revenue	<u>220</u>	<u>306</u>	(86)
Total Operating Revenue	<u>2,369,986</u>	<u>2,497,170</u>	(127,184)
Operating expenses:			
Salaries and benefits	1,493,587	1,333,897	159,690
Medical supplies and drugs	72,731	61,266	11,465
Insurance	134,350	158,302	(23,952)
Other supplies	84,288	74,530	9,758
Depreciation	30,424	30,291	133
Other expenses	<u>794,193</u>	<u>795,822</u>	(1,629)
Total operating expenses	<u>2,609,573</u>	<u>2,454,108</u>	155,465
Operating income (loss)	(239,587)	43,062	(282,649)
Nonoperating income			
Interest income	<u>7,104</u>	<u>10,618</u>	(3,514)
Income (loss) before contributions	(232,483)	53,680	(286,163)
Capital grants and contributions			
Capital Grant	<u>170,141</u>	<u>--</u>	170,141
Total capital grants and contributions	<u>170,141</u>	<u>--</u>	170,141
Increase (decrease) in unrestricted net assets	(62,342)	53,680	(116,022)
Net assets, beginning of year	<u>887,061</u>	<u>833,381</u>	53,680
Net assets, end of year	<u>\$ 824,719</u>	<u>\$ 887,061</u>	\$ (62,342)

Management's Discussion and Analysis
(Continued)

In fiscal year ended 2009, we experienced a \$127,098 decrease in patient service revenue. The majority of this decrease is due to a decrease in the 2009 total patient days to 16,552 from 17,222 in 2008.

We experienced significant increases in the Salary and Benefit expense. Salary and Benefits were adjusted for an across the board raise to all employees as well as several adjustments that were made to ensure the BCNH salaries were in line with other local health facilities.

Nonoperating Income

Nonoperating income consists of interest earned on Nursing Home cash accounts.

The Nursing Home's Cash Flow

Changes in the Bledsoe County Nursing Home's cash flows are consistent with the results of operating and nonoperating income, as discussed earlier.

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2009, the Bledsoe County Nursing Home had \$430,986 invested in capital assets, net of accumulated depreciation, as detailed in Note E to the financial statements.

Debt. Bledsoe County Nursing Home had no debt at June 30, 2009 or 2008.

Other Economic Factors

Due to both the national and local nursing shortages, the Bledsoe County Nursing Home increased compensation in an effort to both retain staff and be competitive in the recruitment of new nursing staff. The Nursing Home received a grant from the Tennessee Department of Finance in the amount of \$227,200. The proceeds are to be used for physical space renovations and supplies for the Nursing Home's Adult Day Care Services. At June 30, 2009, \$170,141 has been used on renovations. The remaining \$57,059 is reflected as deferred revenue on the balance sheet.

Contacting the Nursing Home's Financial Management

This financial report is designed to provide our patients, suppliers, creditors and other stakeholders with a general overview of Bledsoe County Nursing Home's finances and to show Bledsoe County Nursing Home's accountability for the money it receives. It presents information for the Nursing Home only, and does not present the financial position or results of operations of Bledsoe County, Tennessee. Any questions about this report or requests for additional financial information should be directed to Bledsoe County Nursing Home, 71 Wheelertown Road, P.O. Box 250, Pikeville, TN 37367.

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

BALANCE SHEETS

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 383,511	\$ 499,228
Certificates of deposit	158,000	158,000
Patient accounts receivable, net of allowance for doubtful accounts of \$20,000 in 2009 and in 2008	154,292	79,350
Prepaid expenses	<u>39,186</u>	<u>77,293</u>
TOTAL CURRENT ASSETS	<u>734,989</u>	<u>813,871</u>
ASSETS LIMITED AS TO USE		
Resident trust fund	<u>17,017</u>	<u>14,788</u>
CAPITAL ASSETS, net	<u>430,986</u>	<u>275,575</u>
TOTAL ASSETS	<u>\$1,182,992</u>	<u>\$1,104,234</u>

See accompanying notes.

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

BALANCE SHEETS

June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable:		
Trade	\$ 192,248	\$ 117,617
Accrued liabilities:		
Salaries and wages	55,932	49,176
Accrued vacation	27,042	27,042
Other	8,975	8,550
Deferred revenue	<u>57,059</u>	<u>--</u>
TOTAL CURRENT LIABILITIES	<u>341,256</u>	<u>202,385</u>
OTHER LIABILITIES		
Resident trust fund liability	<u>17,017</u>	<u>14,788</u>
TOTAL LIABILITIES	<u>358,273</u>	<u>217,173</u>
NET ASSETS		
Invested in capital assets	430,986	275,575
Unrestricted	<u>393,733</u>	<u>611,486</u>
TOTAL NET ASSETS	<u>824,719</u>	<u>887,061</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,182,992</u>	<u>\$1,104,234</u>

See accompanying notes.

BLEDSOE COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSOE COUNTY, TENNESSEE)

STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
REVENUES		
Net patient service revenue	\$2,357,766	\$2,484,864
Rental income	12,000	12,000
Other revenue	<u>220</u>	<u>306</u>
TOTAL REVENUES	<u>2,369,986</u>	<u>2,497,170</u>
EXPENSES		
Salaries and benefits	1,493,587	1,333,897
Medical supplies and drugs	72,731	61,266
Insurance	134,350	158,302
Other supplies	84,288	74,530
Depreciation	30,424	30,291
Other expenses	<u>794,193</u>	<u>795,822</u>
TOTAL EXPENSES	<u>2,609,573</u>	<u>2,454,108</u>
OPERATING INCOME (LOSS)	(<u>239,587</u>)	<u>43,062</u>
NONOPERATING INCOME		
Interest income	<u>7,104</u>	<u>10,618</u>
TOTAL NONOPERATING INCOME	<u>7,104</u>	<u>10,618</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	(<u>232,483</u>)	<u>53,680</u>
CAPITAL GRANTS AND CONTRIBUTIONS		
Capital grant	<u>170,141</u>	<u>--</u>
TOTAL CAPITAL GRANTS AND CONTRIBUTIONS	<u>170,141</u>	<u>--</u>
INCREASE (DECREASE) IN NET ASSETS	(62,342)	53,680
Net assets, beginning of year	<u>887,061</u>	<u>833,381</u>
Net assets, end of year	<u>\$ 824,719</u>	<u>\$ 887,061</u>

See accompanying notes.

BLEDSOE COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSOE COUNTY, TENNESSEE)

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$2,282,824	\$2,469,825
Cash payments to suppliers for goods and services	(915,340)	(1,088,048)
Cash payments to employees for services	(1,486,831)	(1,327,337)
Other revenue	220	306
Proceeds from rental of facilities	<u>12,000</u>	<u>12,000</u>
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(107,127)</u>	<u>66,746</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
	<u> --</u>	<u> --</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(185,835)	(9,424)
Capital grant	<u>170,141</u>	<u> --</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(15,694)</u>	<u>(9,424)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>7,104</u>	<u>10,618</u>
Net increase (decrease) in cash	(115,717)	67,940
Cash at beginning of year	<u>499,228</u>	<u>431,288</u>
Cash at end of year	<u>\$ 383,511</u>	<u>\$ 499,228</u>

See accompanying notes.

BLEDSOE COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSOE COUNTY, TENNESSEE)

STATEMENTS OF CASH FLOWS
(Continued)

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$(239,587)	\$ 43,062
Adjustments to reconcile operating income to net cash (used) provided by operating activities:		
Depreciation	30,424	30,291
Provision for bad debts	60,361	19,865
(Increase) decrease in:		
Patient accounts receivable	(135,303)	(34,905)
Prepaid expenses	38,107	7,846
Increase (decrease) in:		
Accounts payable	74,631	(6,272)
Accrued liabilities	7,181	6,859
Deferred revenue	<u>57,059</u>	<u>--</u>
 NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	 \$(<u>107,127</u>)	 \$ <u>66,746</u>

See accompanying notes.

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Bledson County Nursing Home (the Nursing Home), was organized in 1967, as a public corporation to operate a 50 bed intermediate care facility located in Pikeville, Tennessee. The Nursing Home, a component unit of Bledson County, Tennessee, is governed by a six (6) member Board appointed by the Bledson County Commission who also have financial responsibility of the Nursing Home such as approval of any bond indentures.

Use of Estimates

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

Enterprise Fund Accounting

The Nursing Home utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis and the economic resource measurement focus. Substantially all revenues and expenses are subject to accrual.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Nursing Home considers currency on hand and demand deposits with financial institutions to be cash. The Nursing Home considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash in patient trust funds is not considered cash or a cash equivalent since balances therein are held by the Nursing Home in an agency capacity for various patients. State statutes authorize the Nursing Home to invest in obligations of the U.S. Treasury, bank certificates of deposit, state approved repurchase agreements, and pooled investment funds, state or local bonds, rated A or higher by a nationally recognized rating service. There were no cash equivalents at June 30, 2009 and 2008.

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Patient Receivables

For patient receivables, the allowance for doubtful accounts is based on management's assessment of the collectibility of specific patient's accounts and the aging of the account receivable. If there is a deterioration of a patient's credit worthiness or actual defaults are higher than historical experience, management's estimates of recoverability of amounts due to the Nursing Home could be adversely affected.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Nursing Home has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989. If the FASB pronouncements conflict or contradict GASB pronouncements, GASB prevails.

Assets Limited as to Use

Assets limited as to use consist of patient's personal assets held by the Nursing Home for the personal use of those patients (see Note D).

Capital Assets

Capital assets are reported at historical cost. Donated capital items are reported at their estimated fair value at the date of donation. Depreciation is computed over the estimated useful lives using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. Expenditures for maintenance, repairs, renewals and betterments that do not extend the useful lives of the assets are expensed as incurred. A summary of estimated useful lives of capital assets follows.

<u>Description</u>	<u>Estimated Useful Lives</u>
Building, land improvements, fixed equipment	8-40 years
Equipment	5-10 years

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Operating Revenues and Expenses

The Medicaid program, a major third-party payor, reimburses the Nursing Home for services rendered to Medicaid beneficiaries based on a prospective per diem rate established by the Medicaid program. The per diem rate established by Medicaid is based primarily on prior years' cost, subject to a maximum per diem rate set by the State of Tennessee.

Gross revenues include normal charges for services rendered to patients covered by the Medicaid program. A provision for contractual adjustment is made to reduce these charges to estimated payments.

Revenue from the Medicaid program accounted for approximately 92% and 89%, respectively, of the Nursing Home's net patient service revenue for the years ended June 30, 2009 and 2008.

Other operating revenues include charges for telephones and laundry services.

Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care

The Nursing Home provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Nursing Home does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Income Taxes

The Nursing Home, as a component unit of Bledson County, Tennessee, is exempt from federal and state income taxes.

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

Risk Management

The Nursing Home is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

NOTE B - MANAGEMENT CONTRACT

On October 1, 2001, Bledson County, Tennessee (Owner) and the Board of Directors (the Board) of Bledson County Nursing Home entered into an agreement with the Chattanooga Hamilton County Hospital Authority d/b/a Erlanger Health Systems, a Tennessee governmental hospital authority (the Hospital), to manage the operations of the Nursing Home for an initial five year period, renewable for four additional five-year terms. The Hospital also provides insurance coverage, employee health insurance, and a portion of the director of nursing's, administrator's, and accountant's compensation which is billed to the Nursing Home on a monthly basis. The term of this agreement shall terminate on October 1, 2026. The fee for these services shall be \$120,000 for years one through five; \$130,000 for years six through ten; \$140,000 for years seven through fifteen; \$150,000 for years sixteen through twenty; and \$160,000 for years twenty-one through twenty-five. All management fees are payable in equal quarterly amounts due on the fifteenth day of the first month of each calendar quarter.

Through this agreement, Bledson County and the Board agree to be and remain solely liable for and obligated to satisfy and discharge all claims, losses, damages, liabilities, costs and expenses (including reasonable attorneys' fees and expenses related to the defense of any claims) arising directly or indirectly in connection with, or relating to, the operation of the Nursing Home, except to the extent that such claims have been caused by the gross negligence or willful misconduct of the Hospital.

The management fee expense amounted to \$130,000 in 2009 and 2008.

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE C - DEPOSITS AND CERTIFICATES OF DEPOSIT

The carrying amounts of the Nursing Home's deposits with commercial banks are \$558,513 and \$671,831 and the bank balances were \$561,698 and \$681,952 at June 30, 2009 and 2008, respectively.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Nursing Home's deposits may not be returned to it. Of the bank balance for June 30, 2009, \$260,820 was covered by federal depository insurance and \$300,878 was covered by collateral held in the pledging bank's trust department in the Nursing Home's name.

Except for the month of June 2008, the Nursing Home's deposits were either covered by federal deposit insurance or by collateral held in the pledging bank's trust department in the Nursing Home's name for the year ended June 30, 2008.

Interest Rate Risk

For an investment, this is the risk that a change in interest rates will affect the fair market value of investments held. The Nursing Home has certificates of deposit at a fixed interest rate.

The Nursing Home currently has no formal policy addressing interest rate or custodial credit risks other than to comply with state statutes.

The Nursing Home has one (1) \$158,000 six month certificate of deposit with an interest rate of 2.53% maturing September 23, 2009. Management's intention is to renew the \$158,000 certificate at the interest rate then in effect for another six months.

NOTE D - ASSETS LIMITED AS TO USE

The Nursing Home administers certain funds which are patients' personal assets. These assets are reflected in the accompanying financial statements as both an asset and a liability to the Nursing Home.

BLEDSOE COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSOE COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

The composition of assets whose use is limited is:

	<u>2009</u>	<u>2008</u>
Resident trust fund	\$ <u>17,017</u>	\$ <u>14,788</u>

NOTE E - CAPITAL ASSETS

Capital assets consist of the following:

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2009</u>
Capital assets not being depreciated:				
Construction in progress	\$ --	\$170,141	\$ --	\$ 170,141
Capital assets being depreciated:				
Land improvements	48,696	--	--	48,696
Building	876,903	--	--	876,903
Fixed equipment	205,433	8,948	--	214,381
Major moveable equipment	42,698	--	--	42,698
Minor moveable equipment	27,404	6,746	--	34,150
Total capital assets being depreciated	<u>1,201,134</u>	<u>15,694</u>	<u>--</u>	<u>1,216,828</u>
Less accumulated depreciation for:				
Land improvements	39,554	377	--	39,931
Building	623,161	27,424	--	650,585
Fixed equipment	192,742	2,218	--	194,960
Major moveable equipment	42,698	--	--	42,698
Minor moveable equipment	27,404	405	--	27,809
Total accumulated depreciation	<u>925,559</u>	<u>30,424</u>	<u>--</u>	<u>955,983</u>
Total capital assets being depreciated, net	<u>275,575</u>	(14,730)	--	<u>260,845</u>
Capital assets, net	\$ <u>275,575</u>	\$ <u>155,411</u>	\$ --	\$ <u>430,986</u>
	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2008</u>
Capital assets being depreciated:				
Land improvements	\$ 39,271	\$ 9,425	\$ --	\$ 48,696
Building	876,903	--	--	876,903
Fixed equipment	205,433	--	--	205,433
Major moveable equipment	42,698	--	--	42,698
Minor moveable equipment	27,404	--	--	27,404
Total capital assets being depreciated	<u>1,191,709</u>	<u>9,425</u>	<u>--</u>	<u>1,201,134</u>
Less accumulated depreciation for:				
Land improvements	39,271	283	--	39,554
Building	595,737	27,424	--	623,161
Fixed equipment	190,158	2,584	--	192,742
Major moveable equipment	42,698	--	--	42,698
Minor moveable equipment	27,404	--	--	27,404
Total accumulated depreciation	<u>895,268</u>	<u>30,291</u>	<u>--</u>	<u>925,559</u>
Total capital assets being depreciated, net	\$ <u>296,441</u>	\$(20,866)	\$ --	\$ <u>275,575</u>

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE F - PURCHASED SERVICES

The dietary arrangement between Bledsoe County Nursing Home and Erlanger Health Systems (the Hospital) is a mutual agreement that the Hospital will run the day-to-day operations of the cafeteria. However, the cafeteria space is located in the Nursing Home facilities and rent of \$1,000 per month is charged to the Hospital. The Hospital purchases all dietary supplies, dietary salaries and consulting fees.

The Nursing Home is charged a cost-per-meal for the Nursing Home patient meals served.

Total amounts paid to the Hospital for these expenses were as follows:

	<u>2009</u>	<u>2008</u>
Dietary purchased services	\$348,132	\$356,013

The total amount of unpaid expense due to the Hospital amounted to \$62,530 and \$68,136 at June 30, 2009 and 2008, respectively.

NOTE G - COMPENSATED ABSENCES

Nursing Home employees are paid for vacation time by a prescribed formula based on length of service. Upon termination, employees of the Nursing Home are compensated for any vacation time earned but not taken. Compensated absence liabilities of \$27,042 are reported at June 30, 2009 and 2008.

NOTE H - CONCENTRATIONS OF CREDIT RISK

The Nursing Home is located in Pikeville, Tennessee. The Nursing Home grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2009</u>	<u>2008</u>
Medicaid	91%	78%
Patient	<u>9</u>	<u>22</u>
	<u>100%</u>	<u>100%</u>

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE I - COMMITMENTS AND CONTINGENCIES

Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

There are no future minimum lease payments under operating leases as of June 30, 2009 and 2008, that have initial or remaining lease terms in excess of one year.

Total rental expense in 2009 and 2008 for all operating leases was \$3,076 and \$2,626, respectively.

Claims-made Insurance Policy

The Nursing Home is insured for professional liability under a claims-made policy with an independent insurance carrier. A claims-made policy covers claims reported to the carrier during the policy term, regardless of the date of incident giving rise to the claim. Premiums are determined by a variety of factors related to the Nursing Home.

Charity Care

The Nursing Home has an uncompensated services obligation under a Hill-Burton Grant. During the fiscal year ending June 30, 2003, the Hill-Burton obligation was converted from a dollar obligation to a time obligation expiring September 29, 2016. The fulfillment of this Hill-Burton requirement can be satisfied by providing free care in future periods.

NOTE J - NET WORKING CAPITAL

Net working capital at June 30, 2009 and 2008, was \$393,733 and \$611,486, respectively.

NOTE K - GRANT INCOME

In 2009, the Nursing Home received a grant from the Tennessee Department of Finance in the amount of \$227,200. The proceeds are to be used for physical space renovations and supplies for the Nursing Home's Adult Day Care Services. At June 30, 2009, \$170,141 has been used on renovations. The remaining \$57,059 is classified as deferred income on the balance sheet.

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE L - SUBSEQUENT EVENTS

The Nursing Home noted no transactions that would provide evidence about material conditions that did not exist at the balance sheet date but arose subsequently, through the date these financial were available to be issued, October 1, 2009.

SUPPLEMENTARY INFORMATION

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

SCHEDULE 1 - NET PATIENT SERVICE REVENUE

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
PATIENT REVENUE		
Routine	\$2,466,933	\$2,504,551
Central service and supply	18,302	19,528
Pharmacy	<u>39,464</u>	<u>25,973</u>
	<u>2,524,699</u>	<u>2,550,052</u>
REVENUE DEDUCTIONS		
Medicaid contractual adjustment	106,572	45,323
Provision for bad debts	<u>60,361</u>	<u>19,865</u>
	<u>166,933</u>	<u>65,188</u>
NET PATIENT SERVICE REVENUE	<u>\$2,357,766</u>	<u>\$2,484,864</u>

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

SCHEDULE 2 - SALARIES AND BENEFITS

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
NURSING SERVICES		
Routine	\$ <u>842,599</u>	\$ <u>758,268</u>
OTHER PROFESSIONAL SERVICES		
Pharmacy	<u>2,420</u>	<u>1,920</u>
GENERAL SERVICES		
Housekeeping	149,868	144,678
Plant operation, maintenance, and social services	<u>88,045</u>	<u>89,457</u>
TOTAL GENERAL SERVICES	<u>237,913</u>	<u>234,135</u>
ADMINISTRATIVE AND FISCAL SERVICES		
Administrative and business office	<u>410,655</u>	<u>339,574</u>
TOTAL SALARIES AND BENEFITS	<u>\$1,493,587</u>	<u>\$1,333,897</u>

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

SCHEDULE 3 - MEDICAL SUPPLIES AND DRUGS

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
NURSING SERVICES		
Routine	\$ <u>53,097</u>	\$ <u>44,847</u>
OTHER PROFESSIONAL SERVICES		
Pharmacy	<u>19,634</u>	<u>16,419</u>
TOTAL MEDICAL SUPPLIES AND DRUGS	\$ <u><u>72,731</u></u>	\$ <u><u>61,266</u></u>

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

SCHEDULE 4 - OTHER SUPPLIES

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
GENERAL SERVICES		
Dietary	\$ 1,341	\$ 1,311
Housekeeping	61,118	56,671
Plant operation, maintenance, and social services	<u>12,541</u>	<u>11,150</u>
TOTAL GENERAL SERVICES	<u>75,000</u>	<u>69,132</u>
ADMINISTRATIVE AND FISCAL SERVICES		
Administrative and business office	<u>9,288</u>	<u>5,398</u>
TOTAL OTHER SUPPLIES	<u>\$ 84,288</u>	<u>\$ 74,530</u>

BLEDSON COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSON COUNTY, TENNESSEE)

SCHEDULE 5 - OTHER EXPENSES

Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
NURSING SERVICES		
Routine	\$ <u>5,909</u>	\$ <u>9,347</u>
GENERAL SERVICES		
Dietary	348,132	356,013
Plant operation, maintenance, and social services	<u>127,890</u>	<u>113,480</u>
TOTAL GENERAL SERVICES	<u>476,022</u>	<u>469,493</u>
ADMINISTRATIVE AND FISCAL SERVICES		
Administrative and business office	<u>312,262</u>	<u>316,982</u>
TOTAL OTHER EXPENSES	<u>\$ 794,193</u>	<u>\$ 795,822</u>

**BURK PEARLMAN
NEBBEN & HUGGINS, PLLC**
CERTIFIED PUBLIC ACCOUNTANTS

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admin@bphcpa.com

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*

To the Board of Directors of
Bledsoe County Nursing Home (a component unit
of Bledsoe County, Tennessee)

We have audited the financial statements of Bledsoe County Nursing Home (a component unit of Bledsoe County, Tennessee) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 1, 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 Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) 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 Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) financial statements that is more than inconsequential will not be prevented or detected by the Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) internal control. We consider the deficiency 2009-1 described in the accompanying Schedule of Findings and Responses 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 Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) 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 over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) financial statements are free of material misstatement, we performed tests of the Nursing Home's 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 *Governmental Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, the Bledsoe County Government and the State of Tennessee, and is not intended to be and should not be used by anyone other than these specified parties.

Burk, Pearlman, Nebben & Huggins, PLLC

Chattanooga, Tennessee
October 1, 2009

BLEDSON COUNTY NURSING HOME (A COMPONENT
UNIT OF BLEDSON COUNTY, TENNESSEE)

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2009

Finding 2009-1: Reconciliation of Balance Sheet Accounts

Condition: Some material balance sheet accounts were not reconciled to supporting documentation at year end.

Criteria: Accounting tasks such as monthly and annual reconciliations play a key role in providing the accuracy of accounting data and information included in the financial statements.

Effect: Failure to appropriately monitor balance sheet reconciliations could result in undetected material misstatements in the financial statements. The failure to ensure appropriate account reconciliations could allow errors to go undetected in the financial statements that management uses as part of its decision making process. Conversely, appropriate account reconciliations should provide management with more confidence in the financial statements.

Recommendation: A reconciliation of all balance sheet accounts should be prepared to determine that all transactions have been recorded and to discover any potential errors. These reconciliations will ensure meaningful and accurate financial statements.

Views of Responsible Officials: The officials concur with the finding.

Planned Corrective Action: Management's response is located on page 29.

Bledsoe County Nursing Home

Pikeville, Tennessee 37367

*107 Wheelertown Ave. — P. O. Box 250
Telephone (423) 447-6811*

October 1, 2009

Tennessee Department of Audit
Division of County Audit
Suite 1500
James K. Polk State Office Building
Nashville, TN 37243-1402

Bledsoe County Nursing Home (A Component Unit of Bledsoe County, Tennessee) submits the following plan for corrective action regarding reportable conditions associated with our internal controls and compliance for the year ended June 30, 2009.

The "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" issued by Burk, Pearlman, Nebben & Huggins, PLLC, on October . 2009, referenced instances of noncompliance and reportable conditions. The corrective action taken on these items is as follows:

Finding 2009-1

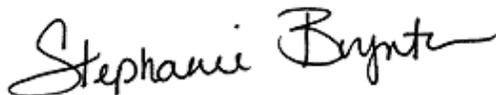
RECONCILIATION OF BALANCE SHEET ACCOUNTS

Some material balance sheet accounts were not reconciled to supporting documentation at year end.

Corrective Action Plan/Management Response

We concur with the recommendation. The office manager will start implementing a monthly reconciliation of all balance sheet accounts.

Sincerely,



Stephanie Boynton
Administrator