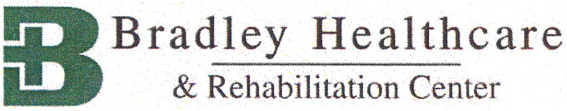


# Financial Statements

For the Years Ended
June 30, 2009 and 2008

BRADLEY HEALTHCARE & REHABILITATION CENTER

Financial Statements

For the Years Ended June 30, 2009 and 2008

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CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

# INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Bradley Healthcare & Rehabilitation Center

We have audited the balance sheets of Bradley Healthcare & Rehabilitation Center (the "Nursing Center"), a component unit of Bradley County, Tennessee, as of June 30, 2009 and 2008, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Nursing Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and *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.

The Nursing Center has not presented management's discussion and analysis required by GASB 34 that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bradley Healthcare & Rehabilitation Center, a component unit of Bradley County, Tennessee, as of June 30, 2009 and 2008, the results of its operations and changes in net assets and its 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 September 2, 2009, on our consideration of the Nursing Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The report on compliance and on internal control over financial reporting is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the auditors' report on the financial statements.

Matheney Stees & Associates PC

September 2, 2009

6136 Shallowford Road, Suite 101 Chattanooga, TN 37421
Phone 423 894 7400 Fax 423 894 9977

BRADLEY HEALTHCARE & REHABILITATION CENTER

Balance Sheets

June 30, 2009 and 2008

| ASSETS | 2009 | 2008 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 1,283,346 | $ 1,222,854 |
| Accounts receivable, net of allowance for uncollectible accounts of $58,585 in 2009 and $15,359 in 2008 | 913,307 | 678,993 |
| Third-party settlement receivable | 38,918 | 136,543 |
| Inventories | 39,290 | 30,510 |
| Prepaid expenses | 2,842 | 856 |
| Total current assets | 2,277,703 | 2,069,756 |
| Property and equipment, net | 2,801,248 | 2,842,347 |
| Assets whose use is limited | 239,206 | 264,497 |
| Total assets | $ 5,318,157 | $ 5,176,600 |

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

BRADLEY HEALTHCARE & REHABILITATION CENTER

Balance Sheets

June 30, 2009 and 2008

| LIABILITIES AND NET ASSETS | 2009 | 2008 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 294,696 | $ 255,776 |
| Accrued payroll | 486,415 | 423,085 |
| Accrued expenses | 103,450 | 101,198 |
| Total current liabilities | 884,561 | 780,059 |
| Long-term liabilities: | | |
| Restricted funds | 99,703 | 118,962 |
| Total liabilities | 984,264 | 899,021 |
| Net assets: | | |
| Invested in capital assets | 2,801,248 | 2,842,347 |
| Temporarily restricted net assets | 17,503 | 23,535 |
| Permanently restricted net assets | 122,000 | 122,000 |
| Unrestricted net assets | 1,393,142 | 1,289,697 |
| Total net assets | 4,333,893 | 4,277,579 |
| Total liabilities and net assets | $ 5,318,157 | $ 5,176,600 |

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

BRADLEY HEALTHCARE & REHABILITATION CENTER

Statements of Operations and Changes in Net Assets

Years Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Operating revenues: | | |
| Net patient service revenue (net of provision for bad debts of $220,000 in 2009 and $84,000 in 2008) | $ 11,847,134 | $ 11,845,444 |
| Other operating revenue | 116,577 | 109,560 |
| Total operating revenues | 11,963,711 | 11,955,004 |
| Operating expenses: | | |
| Nursing services | 6,677,884 | 6,892,629 |
| Dietary services | 1,259,347 | 1,208,492 |
| General services | 1,725,968 | 1,646,115 |
| Administrative services | 2,041,540 | 1,827,874 |
| Depreciation expense | 282,919 | 301,394 |
| Total operating expenses | 11,987,658 | 11,876,504 |
| (Loss) income from operations | (23,947) | 78,500 |
| Nonoperating gains: | | |
| Donations | 75,467 | 3,432 |
| Gain on sale of property and equipment | — | 2,268 |
| Interest income | 10,822 | 20,709 |
| Total nonoperating gains | 86,289 | 26,409 |
| Increase in unrestricted net assets | 62,342 | 104,909 |
| Change in temporarily restricted net assets | (6,028) | 2,785 |
| Net assets at beginning of year | 4,277,579 | 4,169,885 |
| Net assets at end of year | $ 4,333,893 | $ 4,277,579 |

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

BRADLEY HEALTHCARE & REHABILITATION CENTER

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from patients | $ 11,710,445 | $ 12,344,781 |
| Cash payments to suppliers for goods and services | (3,345,643) | (3,464,822) |
| Cash payments to employees for services | (8,265,360) | (8,220,005) |
| Other operating revenue | 116,577 | 109,560 |
| Net cash provided by operating activities | 216,019 | 769,514 |
| Cash flows from capital and related financing activities: | | |
| Acquisition of property and equipment | (241,816) | (166,106) |
| Proceeds from the sale of assets | — | 5,800 |
| Donations received | 75,467 | 3,432 |
| Net cash used for capital and related financing activities | (166,349) | (156,874) |
| Cash flows from investing activities: | | |
| Interest earned | 10,822 | 20,709 |
| Net cash provided by investing activities | 10,822 | 20,709 |
| Net (decrease) increase in cash | 60,492 | 633,349 |
| Cash and cash equivalents at beginning of year | 1,222,854 | 589,505 |
| Cash and cash equivalents at end of year | $ 1,283,346 | $ 1,222,854 |

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

BRADLEY HEALTHCARE & REHABILITATION CENTER

Statements of Cash Flows

Years Ended June 30, 2009 and 2008

| | 2009 | 2008 |
|---|---|---|
| Reconciliation of (loss) income from operations to net cash provided by operating activities: | | |
| Income (loss) from operations | $ (23,947) | $ 78,500 |
| Adjustments to reconcile income (loss) from operations to net cash provided by operating activities: | | |
| Depreciation | 282,919 | 301,393 |
| Provision for bad debts | 220,000 | 84,000 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (454,314) | 393,548 |
| Third-party settlements receivable | 97,625 | 21,789 |
| Inventories | (8,780) | 1,796 |
| Prepaid expenses | (1,986) | 226 |
| Increase (decrease) in: | | |
| Accounts payable | 38,920 | (55,612) |
| Accrued payroll | 63,330 | (54,335) |
| Accrued expenses | 2,252 | (1,791) |
| Total adjustments | 239,966 | 691,014 |
| Net cash provided by operating activities | $ 216,019 | $ 769,514 |

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

## Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

Bradley Healthcare & Rehabilitation Center (the "Nursing Center") is a component unit of Bradley County, Tennessee. The Nursing Center's Board of Trustees is appointed by the County Board of Commissioners. Capital projects are funded primarily from general obligation bonds of the County.

### Nature of Operations

The Nursing Center is principally engaged in providing long-term medical and therapeutic care to elderly residents of Bradley County and the surrounding area.

### Basis of Accounting

The Nursing Center uses enterprise fund accounting. Revenues are recorded when earned and expenses are recognized when incurred using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Nursing Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

### Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

### Income Taxes

The Internal Revenue Service has ruled that the Nursing Center, as a component unit of Bradley County, is an exempt organization as described in Section 501(a) of the Internal Revenue Code; therefore, no provision for income taxes is provided in the financial statements.

### Patient Service Revenue

Patient service revenue is reported at the Nursing Center's estimated net realizable amounts from residents, third-party payers, and others for services rendered.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payers are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

For purposes of the Statements of Cash Flows, the Nursing Center considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Limited use assets include cash held for patients which are not considered cash equivalents for purposes of the Statements of Cash Flows as they are not the property of the Nursing Center and can only be used at the direction of the patient. The Nursing Center also holds limited use assets that are restricted by donors for specific purposes that are not considered cash equivalents until the specifications are met. These items are not considered cash equivalents until they are transferred to unrestricted net assets.

Inventories

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

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the depreciable assets, ranging from 5 to 40 years, using the straight-line method.

Compensated Absences

Accumulated paid time off is accrued when earned.

Net Assets

Net assets of the Nursing Center are classified in four components. Net assets invested in capital assets consist of property and equipment net of accumulated depreciation and reduced by any outstanding borrowings used to finance the purchase or construction of those assets. There was no outstanding debt for property and equipment. Temporarily restricted net assets are subject to donor imposed restrictions that may or will be met, whether by action of the Nursing Center or the passage of time. When a restriction expires, temporarily restricted net assets for which the restricted purpose is related to the Nursing Center are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Nursing Center. Generally, the donors of permanently restricted net assets permit the Nursing Center to use all or part of the income earned on any related investment for general or specific purpose. Unrestricted net assets are the remaining net assets that do not meet the definition of net assets invested in capital assets or restricted net assets.

## Note 2 CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Nursing Center's deposits may not be returned to it. The Nursing Center's deposits are made to a local bank that participates in the Tennessee Bank Collateral Pool (the "Pool"), a multi-entity risk pool that assumes the burden of collateralizing public funds on deposit with local banks. The Treasury Department of the State of Tennessee administers the Pool. The Treasury Department, using uniform procedures, centralizes the collateralization of public funds. The funds in the Pool are collateralized at 105% of the face amount of the deposits uninsured by the Federal Deposit Insurance Corporation (the "FDIC"). All deposits are either insured by the FDIC or through the Pool resulting in no custodial credit risk.

## Note 3 INVENTORIES

Inventories consist of the following:

| | 2009 | 2008 |
|---|---|---|
| General stores | $ 26,554 | $ 21,420 |
| Foods and dietary | 10,243 | 6,826 |
| Enteral feeding supplies | 2,493 | 2,264 |
| | $ 39,290 | $ 30,510 |

## Note 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited are as follows:

| | 2009 | 2008 |
|---|---|---|
| Patient trust funds | $ 99,703 | $ 118,962 |
| Scholarship fund | 12,944 | 15,141 |
| Activities fund | 2,394 | 6,364 |
| Chapel fund | 250 | 4,837 |
| Country store fund | 8,884 | 7,047 |
| Endowment fund | 115,031 | 112,146 |
| | $ 239,206 | $ 264,497 |

These assets represent cash and certificates of deposit with a local financial institution. The patient trust funds are patients' personal assets and are reflected in the financial statements as both an asset and a liability. The Scholarship, Activities, Chapel, Bus, Country Store, and Citizens' Endowment funds represent restricted cash and are shown on the balance sheet as both limited use assets and restricted net assets.

## Note 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | 2008 | Increases | Decreases | 2009 |
|---|---|---|---|---|
| Land | $ 1,250 | $ — | $ — | $ 1,250 |
| Land improvements | 258,387 | 74,312 | — | 332,699 |
| Buildings | 5,176,614 | 77,708 | — | 5,254,322 |
| Fixed equipment | 818,828 | 34,121 | — | 852,949 |
| Major movable | 1,596,450 | 65,228 | — | 1,661,678 |
| Computer software | 40,607 | 2,088 | — | 42,695 |
| Computer hardware | 103,743 | 2,263 | — | 106,006 |
| Construction in progress | 13,900 | — | (13,900) | — |
| Vehicles | 106,444 | — | — | 106,444 |
| | 8,116,223 | 255,720 | (13,900) | 8,358,043 |
| Less accumulated depreciation: | | | | |
| Land improvements | (159,639) | — | (18,733) | (178,372) |
| Buildings | (2,949,955) | — | (158,053) | (3,108,008) |
| Fixed equipment | (743,507) | — | (18,333) | (761,840) |
| Major movable | (1,209,983) | — | (75,514) | (1,285,497) |
| Computer software | (40,329) | — | (93) | (40,422) |
| Computer hardware | (82,889) | — | (7,235) | (90,124) |
| Vehicles | (87,574) | — | (4,958) | (92,532) |
| | (5,273,876) | | (282,919) | (5,556,795) |
| Property and equipment, net | $ 2,842,347 | $ 255,720 | $ (296,819) | $ 2,801,248 |

## Note 6 PERMANENTLY RESTRICTED NET ASSETS

Assets whose use is permanently restricted are as follows:

| | 2009 | 2008 |
|---|---|---|
| Scholarship | $ 12,000 | $ 12,000 |
| Citizens' Endowment Fund | 110,000 | 110,000 |
| | $ 122,000 | $ 122,000 |

Citizens' Endowment Fund

On December 27, 2005, the trustees of the Nursing Center took over control of the Bradley Memorial Hospital Citizens' Endowment Fund (the "Fund"). The Fund was originally established at the bequest of a private citizen to provide a source of income for the Bradley Memorial Hospital (the "Hospital"). On October 14, 2005, the Hospital was sold to a private entity and in accordance with the terms of the Hospital's Declaration of Trust the assets of the Fund were required to be transferred to another county-owned entity. The trustees of the Nursing Center took over management of the Fund by executing a separate Declaration of Trust dated December 27, 2005. Should the Nursing Center be sold to a private entity, these funds are to be transferred to the Cleveland Public Library.

Donations may be made to the Fund and be designated either restricted or unrestricted. No part of the original principal of the Fund shall be expended; it should be invested and reinvested by the Nursing Center's trustees at a financial institution in Bradley County, Tennessee, and be fully insured by a federal agency. All income of the Fund must be used for exempt purposes under federal tax laws and regulations applicable to the Fund.

Scholarship Fund

The Scholarship Fund was established by a former medical director of the Nursing Center as a memorial to his sister. The corpus of the fund is to be held in a certificate of deposit with the earnings to be used to fund scholarships for Nursing Center employees who desire to pursue a career in nursing. The fund is administered by the trustees through the Nursing Center's management.

## Note 7 NET PATIENT SERVICE REVENUE

Medicare

The Nursing Center is paid for Medicare patients under a prospective payment system that bases payment on categories that are indicative of the amount of resources used to treat the specific patient. The category is determined based on periodic clinical assessments of the patient's functional ability.

TennCare

Services rendered to TennCare recipients are reimbursed at per day rates determined by the Tennessee Comptroller's office. The rates are subject to ceilings for both skilled and intermediate care. The per day rate is established prospectively, based on the prior year's cost report.

A summary of gross and net patient revenues for the years ended June 30, 2009 and 2008 follows:

| | 2009 | 2008 |
|---|---|---|
| Medicare | $ 2,008,430 | $ 2,497,139 |
| TennCare | 8,081,187 | 7,632,228 |
| Other | 1,180,634 | 1,144,114 |
| Gross patient service revenues | 11,270,251 | 11,273,481 |
| Contractual adjustments and uncollectible accounts | 576,883 | 571,963 |
| Net patient service revenue | $ 11,847,134 | $ 11,845,444 |

## Note 8 ACCRUED LEAVE

The Nursing Center has an all-purpose paid time off ("PTO") policy. Employees who work 30 hours or more per week are eligible to earn and use PTO. PTO is accrued using a formula based on length of employment at the Nursing Center. Accrued but unpaid PTO benefits at June 30, 2009 and 2008, were $262,637 and $227,675, respectively, and are included in accrued payroll as a current liability.

## Note 9 PENSION PLAN

The Nursing Center sponsors a 403(b) salary deferral plan for the benefit of its employees. Under the plan, employees are allowed to defer a portion of their earnings up to certain maximum amounts. The Nursing Center matches the employee contributions at the amount deferred up to 4%. The employer match totaled $85,020 and $104,836 for the years ended June 30, 2009 and 2008, respectively. There was no unpaid liability at June 30, 2009 and 2008.

## Note 10 COMMITMENTS AND CONTINGENCIES

The Nursing Center is insured for professional liability under a claims-made policy with an independent insurance carrier. The policy covers all claims reported to the carrier for incidents that occur during the coverage period. The coverage period coincides with the Nursing Center's fiscal year. Coverage was renewed under a binder of coverage at June 30, 2009, rendering the need for tail coverage unnecessary. Premiums are determined by a variety of factors related to the Nursing Center.

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

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2009, that have initial or remaining terms of one year or more.

| Year Ending June 30 | Minimum Lease Payments |
|---|---|
| 2010 | $ 12,345 |
| 2011 | 2,700 |
| Total minimum lease payments | $ 15,045 |

Total rental expense for all operating leases was $28,896 and $28,096 for 2009 and 2008, respectively, and is included in the general services expense classification.

## Note 11 RISK FINANCING AND RELATED INSURANCE ISSUES

The Nursing Center is subject to the risks of torts by its employees; theft, destruction or damage to its fixed assets; business interruptions; errors or omissions; injury or illness of employees while in the course of their employment and acts of God, such as fires, floods and earthquakes. The Nursing Center insures itself against losses due to this exposure through the purchase of commercial liability and workers' compensation insurance from reputable insurers. There have been no substantial losses incurred in prior years, and the amount of coverage purchased has not been reduced. Management is unaware of any potential claims that would result in reductions to or cancellation of coverage by the insurer.

# REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees of
Bradley Healthcare & Rehabilitation Center

We have audited the financial statements of Bradley Healthcare & Rehabilitation Center, a component unit of Bradley County, as of and for the year ended June 30, 2009, and have issued our report thereon dated September 2, 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 of the financial statements of Bradley Healthcare and Rehabilitation Center (the "Nursing Center") as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Nursing Center'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 Nursing Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nursing Center's internal control.

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 a combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

The Nursing Center lacks a complete segregation of duties. In an entity of this size the complete segregation of duties is often an unreasonable and unattainable goal. Management has separated as many of the incompatible functions as possible to mitigate this lack of full segregation. We agree that management cannot attain a complete segregation of duties without substantial and unjustified expenditures of resources that do not substantially improve financial reporting for the entity.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bradley Healthcare & Rehabilitation Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards.*

However, we noted other insignificant matters involving the internal control over financial reporting, which we have reported to the management of Bradley Healthcare & Rehabilitation in a separate letter dated September 2, 2009.

This communication is intended solely for the information and use of the Board of Trustees, management, the Bradley 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.

Mathney Stews & Associates PC

Chattanooga, Tennessee
September 2, 2009