

**BORDEAUX LONG-TERM CARE
AND KNOWLES HOME**
(Enterprise Funds of the Hospital Authority
of the Metropolitan Government of
Nashville and Davidson County, Tennessee)

Combined Financial Statements, Required
Supplementary Information and Schedules

June 30, 2010 and 2009

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)

Table of Contents

	<u>Page</u>
INTRODUCTION	1 - 2
INDEPENDENT AUDITORS' REPORT.....	3 - 5
MANAGEMENT'S DISCUSSION AND ANALYSIS	6 - 12
 FINANCIAL STATEMENTS	
Balance Sheets, June 30, 2010 and 2009	13
Statements of Revenues, Expenses, and Changes in Net Assets, Years Ended June 30, 2010 and 2009	14
Statements of Cash Flows, Years Ended June 30, 2010 and 2009	15 - 16
Notes to Combined Financial Statements	17 - 37
 SUPPLEMENTAL SCHEDULES	
I. Combining Balance Sheet Information, Year Ended June 30, 2010	38
II. Combining Statement of Revenues, Expenses, and Changes in Net Assets Information, Year Ended June 30, 2010	39
III. Combined Statement of Revenues, Expenses, and Changes in Net Assets - Budget (Unaudited) and Actual, Year Ended June 30, 2010	40
IV. Bordeaux Long-Term Care Statement of Revenues, Expenses, and Changes in Net Assets - Budget (Unaudited) and Actual, Year Ended June 30, 2010	41
V. Knowles Home Statement of Revenues, Expenses, and Changes in Net Assets - Budget (Unaudited) and Actual, Year Ended June 30, 2010	42
VI. Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in accordance with <i>Government Auditing Standards</i>	43 - 44

BORDEAUX LONG-TERM CARE AND KNOWLES HOME

INTRODUCTION

Bordeaux Long-Term Care (“BLTC”) and Knowles Home (“KH”) are pleased to present their Annual Financial Report for the years June 30, 2010 and 2009.

Responsibility and Controls

BLTC and KH have prepared and are responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

BLTC’s and KH’s system of internal accounting controls is evaluated on an ongoing basis by BLTC’s and KH’s internal financial staff. Crosslin & Associates, P.C., our external auditors, also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that BLTC’s and KH’s operations are conducted according to management’s intentions and to a high standard of business ethics. In management’s opinion, the financial statements present fairly, in all material respects, the financial position of BLTC and KH as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Audit Assurance

The unqualified opinion of our independent external auditors, Crosslin & Associates, P.C., is included in this report.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
June 30, 2010

BOARD OF DIRECTORS

BOARD OF TRUSTEES

Waverly D. Crenshaw, Jr., Esq.	Chair
Dr. Fred Allison, Jr.	Member
Mary Bufwack	Member
Janice Cunningham	Member
Janet Jones	Member
Dr. Howard Burley	Member
Michelle Williams, MD	Member

EXECUTIVE STAFF

Barbara Morrison	BLTC Administrator
Rhonda Dunn	Knowles Administrator
Ella Lawrence	Knowles Assistant Administrator
Brian Cantrell	Director of Facilities BLTC/Knowles
Jan Henderson	Director of Finance BLTC/Knowles
Tiffani Reed	Director of Quality/Risk Management
Karen Shaw	Director of Ancillary Support Services
Sharon Secrest	Director of Nursing
Lou Buckner	Assistant Director of Nursing
Deborah Hawkins	Director of Skilled and Wound Services
Diana Wohlfahrt	Director of Human Resource Hospital Authority
Marc Overlock	General Counsel Hospital Authority
Cathy Everett	Director of Public Relations



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Hospital Authority of the Metropolitan Government
of Nashville and Davidson County, Tennessee

We have audited the accompanying combined financial statements of Bordeaux Long-Term Care ("BLTC") and Knowles Home ("Knowles"), enterprise funds of the Hospital Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (the "Hospital Authority"), which is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements, as listed in the table of contents. These combined financial statements are the responsibility of BLTC and Knowles' management. Our responsibility is to express an opinion on these combined financial statements based on our audits. The combined financial statements of BLTC and Knowles for the year ended June 30, 2009 were audited by other auditors whose report dated October 30, 2009 expressed an unqualified opinion on those statements.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BLTC and Knowles' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 to the combined financial statements, the combined financial statements of BLTC and Knowles are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the Hospital Authority that is attributable to the transactions of BLTC and Knowles.

To the Board of Trustees of
The Hospital Authority of the Metropolitan Government
of Nashville and Davidson County, Tennessee

In our opinion, the 2010 combined financial statements referred to above present fairly, in all material respects, the financial position of Bordeaux Long-Term Care and Knowles Home, enterprise funds of the Hospital Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2010, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying combined financial statements have been prepared assuming that BLTC and Knowles will continue as a going concern. As discussed in Note H, BLTC and Knowles have suffered recurring operating losses that raise substantial doubt about their ability to continue as a going concern. Management's plans in regard to these matters are also described in Note H. The combined financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2010, on our consideration of BLTC and Knowles' internal control over financial reporting and on our tests of their 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 6 through 12 is not a required part of the combined financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of BLTC's and Knowles' management. 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 BLTC and Knowles' combined financial statements taken as a whole. The supplementary information, included in Schedules I and II, is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of BLTC and Knowles. The supplementary information has been subjected to the auditing procedures applied in the audits of the combined financial statements, and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

To the Board of Trustees of
The Hospital Authority of the Metropolitan Government
of Nashville and Davidson County, Tennessee

Our audit was made for the purpose of forming an opinion on BLTC and Knowles' combined financial statements taken as a whole. The supplementary information included in Schedules III through V is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Crosselin & Associates, P.C.

October 31, 2010
Nashville, Tennessee

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010 AND 2009

The discussion and analysis of the Bordeaux Long-Term Care (“BLTC”) and Knowles Home Assisted Living and Adult Day Services, (“Knowles”) financial performance provides an overall review as well as entity-specific information of the financial activities as of and for the fiscal years ended June 30, 2010 and 2009. The intent of this discussion and analysis is to provide information on the performance of the entities. Readers should also review the notes to the combined financial statements in addition to the combined financial statements to enhance their understanding of the financial performance of the entities.

OVERVIEW OF THE FINANCIAL STATEMENTS

BLTC, an enterprise fund of the Hospital Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (“Hospital Authority”), which is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee (the “Primary Government” or “Metro”), operates a Level I and Level II nursing facility and leases space to Kindred Healthcare, LLC in which a 60-bed long-term acute care hospital is located.

Knowles’ operations were transferred by the Metropolitan Council on September 21, 2004, from Metro Social Services to an enterprise fund of the Hospital Authority. Knowles operates an assisted living facility which is licensed for 100 beds, and an adult day-care facility with average daily participation of 50.

This annual report consists of the combined financial statements and notes to those statements. The balance sheets, statements of revenues, expenses, and changes in net deficit, and statements of cash flows and related notes provide a detailed look at the specific financial activities of BLTC and Knowles and generally provide an indication of financial health of the entities. The balance sheets include all of the assets and liabilities, using the accrual basis of accounting. The statements of revenues, expenses, and changes in net deficit report all of the revenues and expenses during the time period indicated. The statements of cash flows report the cash provided by and used in operating activities, noncapital financing activities, and capital and related financing activities, including the repayment of capital lease obligations and capital additions. The 2010, 2009 and 2008 financial statements reflect a full year of BLTC and Knowles operations.

Operational and Financial Highlights

During the fiscal year 2010, the following operational achievements were accomplished:

Bordeaux Long-Term Care officially launched the 10 bed Respiratory Center in conjunction with Linde RSS, an internationally recognized provider of respiratory therapy services, to provide extended pulmonary rehabilitation and other support services to individuals who are dependent upon mechanical ventilation or have other chronic pulmonary issues. The program was the first of its type in Middle Tennessee. The census for the program has grown steadily throughout the first year of operation to an average daily census of 9 and the unit has met or exceeded both financial and clinical benchmarks. The unit has the capacity for 16 patients.

Knowles continued its participation in the Medicaid Waiver Home and Community Based Services Program, providing assisted living and adult day services to over 35 individuals who qualify. BLTC also implemented home based care and home delivered meal services under the Medicaid Waiver program with the support of an expansion grant from the Department of TennCare. There were 22 individuals receiving home based services through the program as of 10/1/10.

In March 2010, the Choices in Long Term Care Act was implemented in Middle Tennessee. This legislation transitioned the management of all long-term care services, including nursing home, assisted living, home based care and adult daycare services from the state to various managed care organizations. Both BLTC and Knowles were able to successfully negotiate contracts for their respective services with the managed care providers for Middle Tennessee. A transition plan was developed and staff training was completed on the new program requirements. Additionally the new program brought with it sweeping changes in how the billing for services occurs. The facilities began billing through Office Ally and our Patient Accounting staff worked diligently with representatives from the state as well as both MCOs to identify and resolve concerns to avoid delays in payment.

Other operational accomplishments or highlights included:

- Rhonda Dunn, previously Assistant Administrator at Knowles Home assumed leadership of the program upon the departure of the previous administrator and Ella Lawrence, previously a patient care manager at BLTC, assumed the assistant administrator role.
- Staff planning and training began for BLTC and Knowles transition from the Metro EBS system to the McKesson Pathways Financial Management system. This software system change will allow the Hospital Authority entities to be on one financial platform for general ledger, accounts payable and fixed assets for the FY11 fiscal year.
- BLTC completed an upgrade of their client data management system and formed a work team to prepare for implementation of the Electronic Medication Administration Record (“EMAR”). Implementation of the EMAR will be completed in FY11.

- Both BLTC and Knowles continued their partnership with the Baptist Healing Trust in implementing Radical Loving Care concepts on the campus. The program provides strategies for caring for the care givers, thereby improving staff morale and retention.
- Census at Kindred Long Term Acute Care Hospital (“KLTACH”) has grown from an average of 12 in 2004 to 26 in 2010.

Balance Sheets

The assets totaled approximately \$15.7 million and liabilities totaled approximately \$5.9 million. Net assets total approximately \$9.8 million as of June 30, 2010.

Net assets decreased approximately \$1.9 million during fiscal 2010 compared to 2009, an approximate \$0.7 million decrease during fiscal 2009 compared to 2008 and an approximate \$2.5 million decrease during fiscal 2008. The table below provides a summary of assets, liabilities, and net assets for fiscal 2010 compared to fiscal 2009 and 2008:

	Balance Sheets		
	(In Thousands)		
	2010	2009	2008
Assets:			
Current assets	\$ 5,285	\$ 4,042	\$ 4,523
Capital assets, net	10,429	11,234	11,582
Total assets	\$ 15,714	\$ 15,276	\$ 16,105
Liabilities:			
Current liabilities	\$ 5,919	\$ 3,531	\$ 3,674
Total liabilities	\$ 5,919	\$ 3,531	\$ 3,674
Net assets:			
Invested in capital assets, net of related debt	\$ 10,429	\$ 11,234	\$ 11,582
Unrestricted	(634)	511	849
Total net assets	\$ 9,795	\$ 11,745	\$ 12,431

Current Assets

Current assets increased approximately \$1.2 million during fiscal 2010. The fiscal 2010 variance comprised an approximate \$1.5 million increase in accounts receivable. The increase in accounts receivable was primarily due to implementation of the TennCare Choices Act that replaced the State Medicaid program with managed care effective March 1, 2010. Current assets decreased approximately \$0.5 million during fiscal 2009 from 2008. The fiscal 2008 variance comprised an approximate \$1.7 million decrease in cash. The decrease in cash was primarily due to the loss from operations.

Capital Assets

Net capital assets decreased approximately \$0.8 million during fiscal year 2010 and \$0.3 million during fiscal year 2009 and \$44,000 during fiscal year 2008. New capital additions during fiscal 2010 totaled approximately \$0.2 million with the largest additions being a \$140,000 of machinery/equipment and building improvements of \$40,000. Offsetting the additions were depreciation charges of approximately \$1.0 million. New capital additions during fiscal 2009 totaled approximately \$0.7 million, with the largest additions being \$0.6 million of machinery/equipment and vehicles replacement of \$0.1 million. Offsetting the additions were depreciation charges of approximately \$1.0 million.

Liabilities

Current liabilities increased approximately \$2.4 million during fiscal year 2010 primarily due to the increase in accounts payable and payable due to Metropolitan Nashville General Hospital. Current liabilities decreased approximately \$0.1 million during fiscal year 2009 primarily due to the decrease in accounts payable and due to the Primary Government balances in fiscal 2008.

Statements of Revenues, Expenses, and Changes in Net Assets

The table below shows the revenues, expenses, and changes in net assets for fiscal 2010 compared to fiscal 2009 and fiscal 2008:

Revenues, Expenses, and Changes in Net Assets			
(In Thousands)			
	2010	2009	2008
Operating revenues:			
Net patient service revenue (net of provision for bad debts of \$1,422 in 2010, \$823 in 2009, and \$1,427 in 2008)	\$ 27,316	\$ 26,858	\$ 25,896
Other	1,253	1,031	992
Total operating revenues	<u>28,569</u>	<u>27,889</u>	<u>26,888</u>
Operating expenses:			
Professional care of patients	26,348	25,325	26,591
Household and property	5,446	6,042	6,244
Dietary	3,711	3,813	3,905
Administrative and general	2,840	3,103	3,148
Licenses and fees	938	938	937
Allocation under Metropolitan Government wide cost allocation plan	2,243	2,294	2,734
Depreciation	992	1,035	954
Total operating expenses	<u>42,518</u>	<u>42,550</u>	<u>44,513</u>
Operating loss	<u>(13,949)</u>	<u>(14,661)</u>	<u>(17,625)</u>
Nonoperating revenues (expenses):			
Revenue from the Primary Government	11,861	13,842	14,884
Investment income	2	30	167
Loss on disposal of capital assets	(1)	(1)	(1)
Nonoperating revenues, net	<u>11,862</u>	<u>13,871</u>	<u>15,050</u>
Deficiency of revenues over expenses before capital contributions	(2,087)	(790)	(2,575)
Capital contributions	137	104	73
Decrease in net assets	<u>(1,950)</u>	<u>(686)</u>	<u>(2,502)</u>
Net assets, beginning of year	<u>11,745</u>	<u>12,431</u>	<u>14,933</u>
Net assets, end of year	<u>\$ 9,795</u>	<u>\$ 11,745</u>	<u>\$ 12,431</u>

Operating Revenues

Net patient service revenue increased approximately \$0.7 million from fiscal 2009. The primary reason for the increase in net patient service revenue was due to increase in level of care mix and respiratory services. Net patient service revenue increased approximately \$1.0 million from fiscal 2008. The primary reason for the increase in net patient service revenue was due to increase in Medicare and Other payer mix, increase in Medicaid reimbursement rates of approximately 5%, and reduction in bad debts.

Metro contributed revenue for the matching of government-wide cost in fiscal 2010, 2009 and 2008.

Other revenue increased approximately \$10,000 in fiscal year 2010, \$38,000 in fiscal year 2009, and \$35,000 in fiscal year 2008 due to the KLTACH lease/service agreement.

Operating Expenses

Total operating expenses decreased \$32,000 over fiscal year 2010 due to efforts to decrease overtime and contractual nursing staff usage. Total operating expenses decreased \$2.0 million or 4.4% over fiscal 2008 primarily due to the decrease in wages of 4% from February 2009 to June 2009, layoffs occurring in the spring to eliminate positions that were not market competitive, and efforts were also made to decrease overtime and contractual nursing staff usage. During fiscal 2008, total expenses increased \$3.2 million or 8% over fiscal 2007.

All departments experienced an increase in health and pension expense in fiscal 2010 and 2009.

Next Year's Budget

The fiscal 2011 operating and capital budgets for BLTC and Knowles were approved in the June 22, 2010 meetings of the Hospital Authority's finance committee and the board of trustees. BLTC's fiscal 2011 budget was developed by reviewing historical trends, capacity changes, and anticipated changes to the Medicare and Medicaid programs. The fiscal 2011 budget anticipates implementation of the following: (1) focusing on maintaining improved Level II to Level I resident mix and Medicare utilization; (2) maximizing rehabilitation services for inpatients and outpatients; (3) continued joint venture with Linde RSS to open a ventilator unit on the skilled unit budgeting 10 beds with a maximum of 16 beds; (4) an decrease in government supplement funding of \$1.7 million due to elimination non core programs including layoffs of non essential core programs staffing; savings on purchasing of medical supplies and pharmaceuticals by participation with Hospital Authority on joint ventures with THA in Signal Mountain Purchasing Group; (5) one-time payroll adjustment of 2% for all full-time staff and reinstatement of longevity program; (6) the continued lease of the hospital unit to KLTACH budgeted at an average daily census of 26; and (7) funding capital improvements programs and anticipating funding from the city government for achievement of the facility's strategic plan.

Knowles' fiscal 2011 budgets were developed by reviewing historical trends, capacity changes, and anticipated changes to the assisted living and day care programs. The fiscal 2011 budget anticipates implementation as follows: (1) modest increases in the census level of the assisted living facility; (2) an increase in government supplement funding of \$0.3 million; (3) one-time payroll adjustment of 2% for all full-time staff and reinstatement of longevity program; (4) increased participation in the State of Tennessee Home and Community Based Service Waiver program for day care services and assisted living services; (5) continuation of in-sourcing pharmacy operations to BLTC's pharmacy; and (6) not funding capital improvements programs and anticipating funding from the city government for achievement of the facility's strategic plan.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
BALANCE SHEETS
JUNE 30, 2010 AND 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 226,762	\$ 267,520
Cash - patient trust funds	214,704	215,221
Patient accounts receivable (net of estimated allowance for uncollectibles of \$1,037,000 and \$781,000 in 2010 and 2009, respectively)	4,018,471	2,700,449
Other receivables, net	209,797	285,698
Due from the Primary Government	64,802	335
Inventories	465,957	420,838
Prepaid expenses	84,530	152,222
Total current assets	5,285,023	4,042,283
Capital assets, net	10,428,974	11,234,208
Total assets	\$ 15,713,997	\$ 15,276,491
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 1,911,317	\$ 814,330
Accrued salaries and wages	1,353,387	1,219,849
Accrued vacation payable	1,125,334	1,191,079
Due to the Primary Government	36,896	30,577
Due to Metropolitan Nashville General Hospital	1,184,175	-
Funds held in trust	214,704	214,649
Deferred revenue	91,417	60,769
Other accrued expenses	1,295	-
Total current liabilities	5,918,525	3,531,253
Net assets:		
Invested in capital assets	10,428,974	11,234,208
Unrestricted	(633,502)	511,030
Total net assets	9,795,472	11,745,238
Commitments and contingencies - Note J	-	-
Total liabilities and net assets	\$ 15,713,997	\$ 15,276,491

See accompanying notes to basic financial statements.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Operating revenues:		
Net patient service revenue (net of estimated provision for bad debts of \$1,421,620 and \$823,247 in 2010 and 2009, respectively)	\$ 27,316,490	\$ 26,645,896
Other	1,252,795	1,242,664
Total operating revenues	28,569,285	27,888,560
Operating expenses:		
Professional care of patients	26,347,531	25,324,815
Household and property	5,445,538	6,042,165
Dietary	3,711,145	3,812,501
Administrative and general	2,840,188	3,103,291
Licenses and fees	938,499	937,983
Allocation under metropolitan governmentalwide cost allocation plan	2,243,372	2,294,083
Depreciation	991,797	1,035,026
Total operating expenses	42,518,070	42,549,864
Operating loss	(13,948,785)	(14,661,304)
Nonoperating revenues (expenses):		
Revenue from the Primary Government	11,861,262	13,841,787
Investment income	1,354	29,603
Loss on disposal of capital assets	(657)	(641)
Nonoperating revenues, net	11,861,959	13,870,749
Deficiency of revenues over expenses before contributions	(2,086,826)	(790,553)
Contributions for capital	137,060	104,460
Decrease in net assets	(1,949,766)	(686,093)
Net assets, beginning of year	11,745,238	12,431,331
Net assets, end of year	\$ 9,795,472	\$ 11,745,238

See accompanying notes to basic financial statements.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 25,998,468	\$ 26,836,533
Other cash receipts	1,328,696	1,020,871
Cash payments to suppliers and others	(12,329,442)	(17,389,605)
Cash payments to employees	<u>(27,977,480)</u>	<u>(24,306,765)</u>
Net cash used in operating activities	<u>(12,979,758)</u>	<u>(13,838,966)</u>
Cash flows from noncapital financing activity:		
Cash received from the Primary Government	11,803,114	13,830,383
Cash received from General Hospital	<u>1,184,175</u>	<u>-</u>
Net cash provided by noncapital financing activity	<u>12,987,289</u>	<u>13,830,383</u>
Cash flows from capital and related financing activities:		
Acquisitions of capital assets, net	(187,220)	(691,995)
Capital contributions	137,060	104,460
Proceeds from sale of capital assets	<u>-</u>	<u>4,508</u>
Net cash used in capital and related financing activities	<u>(50,160)</u>	<u>(583,027)</u>
Cash flows from investing activities:		
Interest received from cash held by Metro treasurer	<u>1,354</u>	<u>29,603</u>
Net cash provided by investing activities	<u>1,354</u>	<u>29,603</u>
Net decrease in cash and cash equivalents	<u>(41,275)</u>	<u>(562,007)</u>
Cash and cash equivalents, beginning of year	<u>482,741</u>	<u>1,044,748</u>
Cash and cash equivalents, end of year	<u>\$ 441,466</u>	<u>\$ 482,741</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 226,762	\$ 267,520
Cash - patient trust funds	<u>214,704</u>	<u>215,221</u>
	<u>\$ 441,466</u>	<u>\$ 482,741</u>

See accompanying notes to basic financial statements.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
STATEMENTS OF CASH FLOWS - Continued
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (13,948,785)	\$ (14,661,304)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Provision for bad debts	1,421,620	826,280
Depreciation	991,797	1,035,026
Increase (decrease) in cash due to cahnges in:		
Patient accounts receivables, net	(2,739,642)	(847,874)
Other receivables, net	75,901	(9,563)
Inventories	(45,119)	(34,290)
Prepaid expenses	67,692	(17,953)
Accounts payable	1,096,987	(216,827)
Accrued salaries and wages	133,538	41,647
Accrued vacation payable	(65,745)	47,297
Estimated third-party settlements	-	(90,787)
Funds held in trust	55	28,612
Deferred revenue	30,648	60,770
Other accrued expenses	1,295	-
Net cash used in operating activities	\$ (12,979,758)	\$ (13,838,966)
Supplemental disclosure of noncash capital and related financing activities:		
Disposition of capital assets recorded as nonoperating loss	\$ 657	\$ 641

See accompanying notes to basic financial statements.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying combined financial statements include the financial activities of Bordeaux Long-Term Care (“BLTC”) and Knowles Home (“Knowles”). BLTC provides long-term acute care, skilled nursing, and intermediate care services. In November 2004, the Hospital Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (“Hospital Authority”) passed a resolution to change the name of Nashville Bordeaux Hospital to Bordeaux Long-Term Care. BLTC is an enterprise fund of the Hospital Authority, which is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee (“Primary Government” or “Metro”). The Hospital Authority was created March 2, 1999 to operate both BLTC and Metropolitan Nashville General Hospital (“NGH”) in lieu of the prior Board of Hospitals. The accompanying combined financial statements include the financial activities of Knowles, which provides assisted living and adult day-care programs. The Knowles programs were transferred by Metro council resolution to an enterprise fund of the Hospital Authority. BLTC and Knowles are governed by trustees of the Hospital Authority appointed by the mayor of the Primary Government. The operation of BLTC, including Knowles, is discretely presented in the comprehensive annual financial report of the Primary Government.

Basis of Presentation

BLTC and Knowles utilize the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. BLTC and Knowles have adopted Governmental Accounting Standards Board (“GASB”) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. That Statement requires proprietary funds to apply all applicable GASB pronouncements, as well as those relevant pronouncements of the Financial Accounting Standards Board (“FASB”) and predecessor standard setting organizations, including those issued after November 30, 1989, which do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of combined 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.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

BLTC and Knowles are enterprise funds of the Hospital Authority, which is a component unit of the Primary Government. For this reason, BLTC and Knowles are exempt from federal and state income taxes. Accordingly, no provision for income taxes has been recognized in the accompanying combined financial statements for BLTC and Knowles.

Cash and Cash Equivalents

BLTC and Knowles consider all highly liquid investments and financial instruments with an original maturity of three months or less when purchased to be cash equivalents.

Funds Held in Trust

Funds held in trust represent patient cash accounts held by BLTC and Knowles for residents who request this custodial service as required by Tennessee law.

Charity Care

BLTC and Knowles provide care to residents who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because BLTC and Knowles do not pursue collection of accounts determined to qualify as charity care, they are not included in net patient service revenue.

Investments

Investments are held entirely in the Metro Investment Pool ("MIP") and are reported at fair market value based on quoted market prices. Investments consist primarily of United States government and related agency securities and investments in the Tennessee Local Government Investment Pool. Interest and dividends are included in nonoperating revenue.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Patient Service Revenue and Receivables

Patient service revenue is recognized as revenue in the period when the services are performed and is reported on the accrual basis at the estimated net realizable amounts from patients, third-party payors, and others. Net patient service revenue includes amounts estimated by management to be reimbursable by third-party payor programs under payment formulas in effect. Net patient revenue also includes an estimated provision for bad debts based upon management's evaluation of collectability including the aging of the receivables and other factors.

Patient accounts receivable are reported net of an estimated allowance for uncollectible accounts. Individual accounts are charged-off against the estimated allowance when management determines that it is unlikely that the account will be collected. BLTC's and Knowles' policies do not require collateral, or other security for patient accounts receivable, although they routinely accept assignment of, or are otherwise entitled to receive, patient benefits under health insurance programs, plans or policies.

Inventories

Inventories consist primarily of medical supplies and pharmaceuticals and are stated at lower of cost (first-in, first-out) or fair market value.

Capital Assets

Capital assets are recorded at historical cost. Contributed capital assets are recorded at their fair value at the time of donation. Maintenance and repair costs are expensed as incurred. Depreciation is calculated utilizing the straight-line method over the following estimated useful lives:

Land improvements	15 years
Building and improvements	20 - 40 years
Machinery and equipment	7 - 13 years
Vehicles	5 years

Knowles' building asset is maintained as an asset of the Primary Government and was not transferred to the enterprise fund.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital assets are reviewed for impairment when their service utility has declined significantly and unexpectedly. If such assets are no longer used, they are reported at the lower of carrying value or fair value. If such assets will continue to be used, the impairment loss is measured using a historical cost approach method that best reflects the diminished service utility of the capital asset. No charge related to impairment matters was required during 2010 and 2009.

Government-wide Cost Allocation Plan

The government-wide cost allocation plan was developed by the Primary Government to define and distribute certain direct and indirect costs incurred by the Primary Government to the individual user departments and agencies within the Primary Government. Such allocated costs are recorded as operating expenses in fiscal years 2010 and 2009 as part of the Primary Government's full cost recovery plan called local office cost allocation plan ("LOCAP"). The 2010 budget, approved by the Primary Government, supports the LOCAP plan for BLTC and Knowles.

Restricted Resources

When both restricted and unrestricted resources are available to finance a particular program, restricted resources are used before unrestricted resources.

Net Assets

Net assets of BLTC and Knowles are classified in components. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt.

Operating Revenues and Expenses

The combined statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare, assisted living, and adult day care services - BLTC's and Knowles' principal activities. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide the principal activities, other than financing costs.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

Employees accumulate vacation, holiday, and sick leave at varying rates depending upon their years of continuous service and their payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation time at their regular rate of pay. Since the employees' vacation time both accumulates and vests, an accrual for this liability is included in accrued vacation payable in the accompanying combined balance sheets.

Accounting Standards Codification

In June 2009, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 168, *the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("GAAP") – a Replacement of FASB Statement No. 162*. This Statement modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative. Effective September 2009, the FASB Accounting Standards Codification ("ASC"), also known collectively as the "Codification," is considered the single source of authoritative U.S. accounting and reporting standards, except for authoritative pronouncements, rules and interpretive releases issued by the GASB if the organization is a governmental entity. FASB ASC 105-10, *Generally Accepted Accounting Principles*, became applicable during fiscal year 2010. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references.

In March 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (the "GASB Codification"). This Statement became effective upon issuance and addresses three issues not included in the authoritative literature that establishes accounting principles – related party transactions, going concern considerations, and subsequent events. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards.

This Statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. BLTC and Knowles evaluated all events or transactions that occurred after June 30, 2010, through the issuance date of the financial statements. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2010 financial statements.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Further, as discussed in Note H, management has determined that preparation of the combined financial statements on a going concern basis to be appropriate.

Recently Issued and Adopted Accounting Pronouncements

FASB ASC 820, *Fair Value Measurements and Disclosures*, which was adopted in 2009, emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). At June 30, 2010 and 2009, BLTC and Knowles had no assets or liabilities meeting the criteria for disclosure, under guidance established in FASB ASC 820.

In March 2009, the GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement is effective upon issuance and incorporates the hierarchy of GAAP for state and local governments into the GASB's authoritative literature. The adoption of this Statement did not have a material impact on the financial statements.

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement is effective for years beginning after June 15, 2010 and updates current standards regarding the financial reporting of financial instruments and external investment pools. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. Management is evaluating the impact of this Statement on the financial statements but does not anticipate any material impact upon adoption.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

A. DESCRIPTION OF REPORTING ENTITY AND SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In August 2010, the FASB issued Accounting Standard Update (ASU) 2010-23, *Measuring Charity Care for Disclosure*, as it relates to FASB ASC 954, Health Care Entities. This Update provides amendments that require cost to be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. The FASB anticipates that there will be various techniques used by health care entities to determine how the direct and indirect costs are identified. As a result, the amendments in this ASU also require disclosure of the method used to identify or determine such costs. The amendments in this Update are effective for fiscal years beginning after December 15, 2010 and should be applied retrospectively to all periods presented. Management is evaluating the impact of this ASU on the financial statements but does not anticipate any material impact upon adoption.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform with the 2010 financial statement presentation.

B. DEPOSITS AND INVESTMENTS

The Hospital Authority is authorized by policy to invest funds that are not immediately needed in: United States treasury bills, bonds and notes; The State of Tennessee Investment Pool; bonds issued by the United States government; and bonds of commercial entities and other investments such as repurchase agreements and commercial paper. The Hospital Authority is authorized to invest in these instruments either directly or through the Metro Investment Pool ("MIP").

Deposits in financial institutions are required by state statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of at least 105% of the average daily balance of the deposits placed in the institutions, less the amount protected by federal depository insurance. A financial institution's public funds collateral requirement may also be met by participation in the State of Tennessee's collateral pool.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

B. DEPOSITS AND INVESTMENTS - Continued

As of June 30, 2010 and 2009, all of BLTC's and Knowles' deposits were held by financial institutions, which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregated balance of their public fund accounts, including BLTC and Knowles. The amount of collateral required to secure these deposits must be at least 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk disclosure.

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, deposits may not be returned to it. As of June 30, 2010 and 2009, all deposits were insured or collateralized.

Investments

Investments are managed as a part of the MIP and are administered according to the investment policy of the Primary Government.

As of June 30, 2010 and 2009, deposits and investments consisted of the following:

	<u>2010</u>		<u>2009</u>	
	<u>Fair</u>	<u>Average</u>	<u>Fair</u>	<u>Average</u>
	<u>Value</u>	<u>Weighted</u>	<u>Value</u>	<u>Weighted</u>
		<u>Maturity</u>		<u>Maturity</u>
		<u>(in years)</u>		<u>(in years)</u>
Metro Investment Pool:				
Tennessee Local Government Investment Pool (1)	\$ 3,232	0.22	\$ 234,816	0.22
Cash	-		14,752	
	<u>3,232</u>		<u>249,568</u>	
Total Metro Investment Pool				
Cash - non-MIP	223,530		17,952	
Cash - patient trust funds	214,704		215,221	
	<u>\$ 441,466</u>		<u>\$ 482,741</u>	
Total cash, cash equivalents, and investments				

(1) The Primary Government participates in the Tennessee Local Government Investment Pool. The risks associated with this pool are discussed in the financial statements for the State of Tennessee.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

B. DEPOSITS AND INVESTMENTS - Continued

Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the Hospital Authority's investment policy, the average maturity of the portfolios are monitored and managed so that the changing interest rates will cause only minimal deviations in the fair value of investments.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Hospital Authority's investment policy limits its investments in corporate obligations to prime banker acceptances, which are eligible for purchase by the Federal Reserve System, and commercial paper, which is rated at least A1 or the equivalent by at least two nationally recognized rating agencies.

Concentration of Credit Risk: This is the risk associated with the amount of investments the Hospital Authority has with any one issuer. The investment policy limits single exposure to 10% of total investments, except for securities of the U.S. government or its agencies. The Hospital Authority's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Primary Government and are held by either the counterparty or the counterparty's trust department or agent but not in the Primary Government's name.

Custodial Credit Risk: This is the risk that, in the event of a failure of the counterparty to a transaction, the Hospital Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of June 30, 2010 and 2009, all investments are insured or registered or the securities are held by the Primary Government or its agent in its name.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

C. NET PATIENT SERVICE AND OTHER REVENUE

BLTC has agreements with third-party payors that provide for payments to BLTC at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

Medicare reimburses Skilled Nursing Facilities based on a federally-mandated Prospective Payment Systems (“PPS”) that establishes case-mix adjusted per diem rates for residents classified according to Resource Utilization Groups (“RUG”). The RUG’s classification system uses information from provider’s resident assessments to determine the resident’s nursing need based on medical diagnoses, impairments to activities of daily living, and cognitive status. The Medicare PPS also adjusts per diem rates based on area-specific wage indices and whether the facility is located in an urban or rural area. BLTC is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by BLTC and audits thereof by the Medicare fiscal intermediary. BLTC’s Medicare cost reports have been filed and audited by the Medicare fiscal intermediary through June 30, 2009. Management has estimated the cost report settlement for the year ended June 30, 2010. In the opinion of management, adequate provision has been made in the financial statements for the effects of estimated final settlements.

BLTC also contracts with Medicare advantage plans that pay specific contracts rates according to the level of service provided.

Knowles’s services are not reimbursable by the Medicare program.

Medicaid

The Medicaid program reimburses BLTC for the cost of skilled and intermediate care services rendered to Medicaid beneficiaries at a prospective rate, which is based on the lesser of the reimbursable cost of services rendered to intermediate care beneficiaries or a reimbursement cap established by Medicaid. The reimbursement cap is expressed as a per diem rate.

Knowles’ services are not reimbursable by the Medicaid program. Knowles began participating in the State of Tennessee’s Home and Community Based Service Waiver program for day-care services and assisted living services in fiscal year 2009. The reimbursement is expressed as a monthly or hourly prospective rate.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

C. NET PATIENT SERVICE AND OTHER REVENUE - Continued

TennCare and Other

The State of Tennessee provides a managed care program, TennCare, to provide healthcare coverage to those previously eligible for Medicaid as well as the uninsured population. BLTC contracts with various managed care organizations (“MCOs”) which offer both health maintenance organization (“HMO”) and preferred provider organization (“PPO”) healthcare products. Reimbursement to BLTC for skilled care services is received through prospectively determined per diems or contracted amounts.

BLTC contracts with six hospice providers for end-of-life services. The reimbursement to BLTC is the same as the Medicaid reimbursement rate, which is prospectively determined.

The TennCare CHOICES in Long-Term Care Program (“CHOICES”) was effective in Middle Tennessee with billing dates of service March 1, 2010 and thereafter. CHOICES was introduced by Governor Bredesen and passed unanimously by the Tennessee General Assembly as part of the Long Term Care Community Choices Act of 2008. The CHOICES Program fundamentally restructured the delivery of long term care services for the elderly and adults with physical disabilities who qualify for Medicaid, require the level of care provided in a nursing facility, and need long term care including nursing facility services or home and community based services such as personal care, homemaker services and home delivered meals. As the name suggests, the Program provides recipients with a choice between receiving long term care services in a nursing facility or in the community, provided the recipient’s needs could be satisfied safely and cost effectively in the community. Under CHOICES, recipients receive all healthcare services through their assigned TennCare Managed Care Organization (“MCO”). Each recipient is assigned a Care Coordinator who is responsible for coordination, oversight and management of all aspects of the recipient’s care, regardless of the service delivery setting. All residents who were residing in a nursing facility and were enrolled in Medicaid or TennCare as of March 1, 2010 were affected by the change.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

C. NET PATIENT SERVICE AND OTHER REVENUE - Continued

BLTC's mix of net patient service revenue from patients and third-party payors at June 30 was as follows:

	<u>2010</u>	<u>2009</u>
Medicaid	64%	69%
Medicare	17%	18%
Other	9%	10%
TennCare	10%	3%

Knowles' mix of net patient service revenue from residents and third party payors at June 30 was as follows:

	<u>2010</u>	<u>2009</u>
Private pay	69%	76%
Other including Home and Community Based Services	31%	24%

Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

BLTC's net patient service revenue excluding Kindred Long Term Acute Care Hospital ("KLTACH") for the years ended June 30, 2010 and 2009 comprised the following:

	<u>2010</u>	<u>2009</u>
Gross charges	\$ 31,585,208	\$ 29,558,026
Less:		
Contractual adjustments	4,166,993	3,588,046
Estimated provision for bad debts	1,389,305	824,763
Net patient service revenue	<u>\$ 26,028,910</u>	<u>\$ 25,145,217</u>

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

C. NET PATIENT SERVICE AND OTHER REVENUE - Continued

Knowles is reimbursed by private pay individuals for the care it provides for the assisted living program. The adult day-care program is partially reimbursed by grants from the State of Tennessee for participants meeting eligibility requirements along with minimal fees as determined by the grants. Knowles' net patient service revenue for the years ended June 30, 2010 and 2009 comprised the following:

	2010	2009
Gross charges	\$ 3,662,812	\$ 4,054,815
Less:		
Contractual adjustments	2,342,917	2,555,652
Estimated provision for bad debts	32,315	(1,516)
Net patient service revenue	\$ 1,287,580	\$ 1,500,679

D. CONCENTRATIONS OF CREDIT RISK

BLTC provides healthcare and other services through its facility located in Nashville, Tennessee. Credit is granted without collateral to residents at BLTC, substantially all of whom are local residents. The mix of receivables from residents and other third-party payors at June 30 was as follows:

	2010	2009
Medicaid	\$ 313,886	\$ 1,477,771
Medicare	400,403	386,635
TennCare	2,933,040	125,517
Other	722,262	991,516
Residents	559,924	462,142
	4,929,515	3,443,581
Less: estimated allowance for uncollectible accounts	(984,699)	(886,678)
	\$ 3,944,816	\$ 2,556,903

Approximately 27% of Knowles' residents are participating in the Home and Community Based waiver program, while the remainder are classified as self-pay.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

E. CHARITY CARE

BLTC maintains records to identify and monitor the level of charity care it provides. The charges forgone for services and supplies furnished amounted to the following for the years ended June 30:

	2010	2009
Charges foregone, based on established rates	\$ 93,296	\$ 55,809
Equivalent percentage of charity care patients to all served	0.3%	0.3%

Actual direct costs associated with such services have not been separately identified.

F. INVENTORIES

A summary of BLTC and Knowles' inventories at June 30 was as follows:

	2010	2009
Dietary	\$ 61,080	\$ 84,412
General	4,787	1,572
Housekeeping	18,346	17,817
Pharmacy and medical supplies	381,744	317,037
Total inventories	\$ 465,957	\$ 420,838

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

G. CAPITAL ASSETS

A summary of capital assets and related activity as of and for the year ended June 30, 2010 was as follows:

	Balances at June 30, 2009	Additions	Retirements	Transfers	Balances at June 30, 2010
Capital assets not being depreciated:					
Construction in progress	\$ -	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:					
Land improvements	523,885	-	-	-	523,885
Buildings and improvements	20,127,265	41,880	-	-	20,169,145
Machinery and equipment	4,776,537	145,340	(197,599)	-	4,724,278
Vehicles	220,430	-	-	-	220,430
Total capital assets being depreciated	25,648,117	187,220	(197,599)	-	25,637,738
Less accumulated depreciation:					
Land improvements	371,802	15,626	-	-	387,428
Buildings and improvements	10,833,735	606,252	-	-	11,439,987
Machinery and equipment	3,126,663	334,495	(196,942)	-	3,264,216
Vehicles	81,709	35,424	-	-	117,133
Total accumulated depreciation	14,413,909	991,797	(196,942)	-	15,208,764
Capital assets being depreciated, net	11,234,208	(804,577)	(657)	-	10,428,974
Capital assets, net	\$ 11,234,208	\$ (804,577)	\$ (657)	\$ -	\$ 10,428,974

Capital assets for Knowles were maintained by the Primary Government and were not transferred to the Hospital Authority. The building and equipment assets are reported in the general fund of the Primary Government.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

G. CAPITAL ASSETS - Continued

A summary of capital assets and related activity as of and for the year ended June 30, 2009 was as follows:

	Balances at				Balances at
	June 30, 2008	Additions	Retirements	Transfers	June 30, 2009
Capital assets not being depreciated:					
Construction in progress	\$ 5,934	\$ -	\$ -	\$ (5,934)	\$ -
Capital assets being depreciated:					
Land improvements	523,885	-	-	-	523,885
Buildings and improvements	20,116,117	23,553	(12,405)	-	20,127,265
Machinery and equipment	4,438,369	563,982	(231,748)	5,934	4,776,537
Vehicles	115,970	104,460	-	-	220,430
Total capital assets being depreciated	25,194,341	691,995	(244,153)	5,934	25,648,117
Less accumulated depreciation:					
Land improvements	356,141	15,661	-	-	371,802
Buildings and improvements	10,230,575	612,652	(9,492)	-	10,833,735
Machinery and equipment	2,981,337	374,838	(229,512)	-	3,126,663
Vehicles	49,834	31,875	-	-	81,709
Total accumulated depreciation	13,617,887	1,035,026	(239,004)	-	14,413,909
Capital assets being depreciated, net	11,576,454	(343,031)	(5,149)	5,934	11,234,208
Capital assets, net	\$ 11,582,388	\$ (343,031)	\$ (5,149)	\$ -	\$ 11,234,208

H. REVENUE FROM AND ECONOMIC DEPENDENCY ON THE PRIMARY GOVERNMENT

The accompanying combined financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements for the year ended June 30, 2010, BLTC and Knowles experienced a decrease in their net assets of approximately \$1.95 million. BLTC and Knowles' financial activities resulted in net cash used in operating activities of approximately \$13.0 and \$13.8 million for the years ended June 30, 2010 and 2009, respectively, which was funded primarily by the Government in the form of revenue or capital contributions reflected in the accompanying combined financial statements.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
 (ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
 GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
 NOTES TO COMBINED FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2010 AND 2009

H. REVENUE FROM AND ECONOMIC DEPENDENCY ON THE PRIMARY GOVERNMENTS - Continued

Following is a summary of revenue from the Primary Government for the years ended June 30:

	2010	2009
Revenue from the Primary Government:		
BLTC	\$ 10,406,968	\$ 11,049,069
Knowles	1,454,294	2,792,718
	\$ 11,861,262	\$ 13,841,787

The Primary Government has budgeted and legally approved approximately \$8,712,692 and \$1,767,750, respectively, as BLTC's and Knowles' revenue from the Primary Government for fiscal year 2011. BLTC and Knowles are and will be dependent upon the Primary Government to subsidize current and future operations.

Accordingly, these factors, among others, indicate that BLTC and Knowles may be unable to continue as a going concern for a reasonable period of time. The accompanying combined financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should BLTC and Knowles be unable to continue as a going concern. BLTC's and Knowles' ability to continue as a going concern is dependent on their ability to generate sufficient cash flows to meet their obligations on a timely basis and ultimately to attain a level in which operating revenues and revenue from the Primary Government exceed operating expenses. BLTC and Knowles have implemented several strategic initiatives to increase cash flows including adding or expanding services, review of supplier contracts and cost saving measures.

I. PENSION PLAN AND EMPLOYEE BENEFITS

Employees participate in the Metro defined benefit pension plan sponsored by the Primary Government. Employees do not contribute to the pension plan; all pension costs are paid by the general fund of the Primary Government. A pro-rata share of pension costs and other employee benefits is allocated under the government-wide cost allocation plan and, as such, have not been separately determined. No separate financial report is issued for this plan.

All full-time employees are eligible to participate in the Metro plan after six months of service. Normal retirement for employees occurs at age 65 and entitles employees to lifetime monthly benefits as determined under the Plan. Benefits are fully vested upon completion of five years of service.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

I. PENSION PLAN AND EMPLOYEE BENEFITS - Continued

Liabilities for vested benefits and for contributions in excess of those paid are reflected in the applicable governmental activities in the statements of net assets and activities of the Primary Government. Accordingly, no additional liability has been accrued in the accompanying combined financial statements. BLTC's payroll for the years ended June 30, 2010 and 2009 was approximately \$18,670,000 and \$18,398,000, respectively. Knowles' payroll for the years ended June 30, 2010 and 2009 was approximately \$2,054,000 and \$2,226,000, respectively. Covered payroll has not been separately determined; however, substantially all payroll expense is related to employees covered by the Metro defined benefit pension plan.

J. OPERATING LEASES

BLTC leases equipment under operating lease agreements. Future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2010, are as follows:

<u>Year Ending June 30,</u>		
2011	\$	40,010
2012		3,600
2013		3,450
2014		-
2015		-
2016-2020		-
Total minimum payments required	\$	<u>47,060</u>

BLTC recognized approximately \$40,800 and \$37,900 in lease expense for the years ended June 30, 2010 and 2009, respectively.

K. HEALTH INSURANCE PROGRAMS

Employees have the option to participate in the Metropolitan Employees' Medical Benefit Trust Fund. BLTC and Knowles' aggregate contribution to the fund totaled approximately \$3,280,000 and \$3,188,000 for 2010 and 2009, respectively. The fund is self-insured with maximum covered benefits of \$1,000,000 per participant for nonnetwork provider services and unlimited covered benefits for participants utilizing network covered services. The liability for claims payable is reflected in the applicable governmental activities in the statements of net assets of the Primary Government.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

L. RELATED-PARTY TRANSACTIONS

On October 1, 2001, BLTC entered into an agreement with Alive Hospice, Inc. (“Alive”) whereby Alive may refer patients to BLTC, and BLTC may refer patients to Alive. Currently, a board member of the Hospital Authority is the CEO of Alive. BLTC recorded revenue of approximately \$320,000 and \$783,000 from Alive patients during the years ended June 30, 2010 and 2009, respectively. At June 30, 2010 and 2009, accounts receivable from Alive patients totaled approximately \$27,000 and \$65,000, respectively.

On November 3, 2003, BLTC entered into a lease/service agreement (“Agreement”) with Kindred Healthcare, LLC (“Kindred”) leasing the 60-bed long-term acute care unit of BLTC. Kindred pays monthly rent and any ancillary charges incurred by BLTC on Kindred’s behalf. For the year ended June 30, 2010, BLTC recorded revenue of approximately \$1,279,000 of which \$545,000 is included in net patient service revenue and \$734,000 in other revenue and as of June 30, 2010 had accounts receivable of approximately \$209,000 from Kindred included in other receivables. For the year ended June 30, 2009, BLTC earned revenue of approximately \$1,322,000 of which \$510,000 is included in net patient service revenue and \$812,000 in other revenue and as of June 30, 2009 had accounts receivable of approximately \$285,000 from Kindred included in other receivables.

The Agreement, which has an initial term of 15 years and two 5-year renewal periods, may be terminated without cause after three years with adequate written notice. The Agreement states that base rent will be adjusted in the fourth year and forward based on the U.S. Bureau of Labor Statistics, Consumer Price Index for urban wage earners and clerical workers (U.S. all items).

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

M. RISK MANAGEMENT PROGRAM

BLTC and Knowles are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illness; natural disasters; and professional and general liability claims and judgment. Governmental tort liability is limited under provisions of the Tennessee governmental tort liability act (t.c.a. 29-20-403, et seq.), which removed tort liability from governmental entities. In addition to requiring claims to be made in conformance with this act, special provisions include, but are not limited to, special notice of notice of requirements imposed upon the claimant, a one year statute of limitations, and a provision requiring that the governmental entity purchase insurance or be self-insured within certain limits. This act also prohibits a judgment or award exceeding the minimum amounts of insurance coverage set out in the act (\$300,000 for bodily injury or death of any one person and \$700,000 in the aggregate for all persons in any one accident, occurrence or act) or the amount of insurance purchased by the governmental entity. BLTC and Knowles are members of the primary government self-insurance program. Any settlement of claims, which results in a liability against BLTC or Knowles, is payable entirely by the primary government self-insurance program and is included in expenses allocated under metropolitan government-wide costs (see Note A).

N. COMMITMENTS AND CONTINGENCIES

On July 31, 2002, the Hospital Authority entered into an amended and Restated Management Services Agreement with Vanderbilt University whereby Vanderbilt University Medical Center (“VUMC”) manages BLTC and Knowles and provides the services of certain management personnel. The Hospital Authority is also required to provide subsidies for the payment of costs of BLTC’s and Knowles’ operations. The Primary Government contributed \$11,861,262 and \$13,841,787 for the fiscal years ended June 30, 2010 and 2009, respectively. The Hospital Authority is committed to provide \$10,480,442 for the fiscal year ending June 30, 2011.

During the term of the agreement, any annual operating surplus of BLTC and Knowles, as defined in the management agreement, will be distributed as follows:

- 50% retained by the Hospital Authority and used for the benefit of BLTC and Knowles.
- 50%, up to a maximum of \$605,000 per year payable to VUMC provided, however, that such funds are used solely to pay any excess of VUMC’s costs of the personnel and consulting services provided to BLTC and Knowles over the management fees payable to VUMC, or to support research, instruction, and other academic programs that benefit BLTC and Knowles.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
NOTES TO COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2010 AND 2009

N. COMMITMENTS AND CONTINGENCIES - Continued

- Any remaining surplus shall be retained by the Hospital Authority and used for the benefit of BLTC and Knowles.
- Compensation for these management services was approximately \$202,000 and \$310,000 for the years ended June 30, 2010 and 2009, respectively, and is included in administrative and general expenses.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under provisions of the Health Insurance Portability and Accountability Act of 1996, and patient records privacy and security. Recently, governmental activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that BLTC and Knowles are currently 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.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME SCHEDULE I
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
COMBINING BALANCE SHEET INFORMATION
JUNE 30, 2010

	<u>BLTC</u>	<u>Knowles</u>	<u>Combined</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 170,566	\$ 56,196	\$ 226,762
Cash - patient trust funds	155,599	59,105	214,704
Patient accounts receivable, net	3,944,816	73,655	4,018,471
Other receivables, net	209,797	-	209,797
Due from the Primary Government	64,796	6	64,802
Due from/to BLTC/Knowles	8,475	(8,475)	-
Inventories	457,709	8,248	465,957
Prepaid expenses	81,311	3,219	84,530
	<u>5,093,069</u>	<u>191,954</u>	<u>5,285,023</u>
Total current assets			
Capital assets, net	<u>10,070,910</u>	<u>358,064</u>	<u>10,428,974</u>
Total assets	<u>\$ 15,163,979</u>	<u>\$ 550,018</u>	<u>\$ 15,713,997</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 1,846,066	\$ 65,251	\$ 1,911,317
Accrued salaries and wages	1,214,795	138,592	1,353,387
Accrued vacation payable	940,771	184,563	1,125,334
Due to the Primary Government	19,414	17,482	36,896
Due to Metropolitan Nashville General Hospital	1,183,675	500	1,184,175
Funds held in trust	155,599	59,105	214,704
Deferred revenue	90,677	740	91,417
Other accrued expenses	1,295	-	1,295
	<u>5,452,292</u>	<u>466,233</u>	<u>5,918,525</u>
Total current liabilities			
Net assets:			
Invested in capital assets, net of related debt	10,070,910	358,064	10,428,974
Unrestricted	<u>(359,223)</u>	<u>(274,279)</u>	<u>(633,502)</u>
Total net assets	9,711,687	83,785	9,795,472
Commitments and contingencies			
	-	-	-
Total liabilities and net assets	<u>\$ 15,163,979</u>	<u>\$ 550,018</u>	<u>\$ 15,713,997</u>

See accompanying independent auditors' report.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME SCHEDULE II
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS INFORMATION
YEAR ENDED JUNE 30, 2010

	<u>BLTC</u>	<u>Knowles</u>	<u>Combined</u>
Operating revenues:			
Net patient service revenue	\$ 26,028,910	\$ 1,287,580	\$ 27,316,490
Other	1,039,194	213,601	1,252,795
Total operating revenues	<u>27,068,104</u>	<u>1,501,181</u>	<u>28,569,285</u>
Operating expenses:			
Professional care of patients	24,278,624	2,068,907	26,347,531
Household and property	4,729,409	716,129	5,445,538
Dietary	3,112,361	598,784	3,711,145
Administrative and general	2,642,868	197,320	2,840,188
Licenses and fees	936,359	2,140	938,499
Allocation under metropolitan government-wide cost allocation plan	2,157,331	86,041	2,243,372
Depreciation	925,557	66,240	991,797
Total operating expenses	<u>38,782,509</u>	<u>3,735,561</u>	<u>42,518,070</u>
Operating loss	<u>(11,714,405)</u>	<u>(2,234,380)</u>	<u>(13,948,785)</u>
Nonoperating revenues (expenses):			
Revenue from the Primary Government	10,406,968	1,454,294	11,861,262
Investment income	43	1,311	1,354
Gain (loss) on disposal of capital assets	(1,136)	479	(657)
Nonoperating revenues, net	<u>10,405,875</u>	<u>1,456,084</u>	<u>11,861,959</u>
Deficiency of revenues over expenses before contributions	(1,308,530)	(778,296)	(2,086,826)
Contributions for capital	110,050	27,010	137,060
Decrease in net assets	(1,198,480)	(751,286)	(1,949,766)
Net assets, beginning of year	<u>10,910,167</u>	<u>835,071</u>	<u>11,745,238</u>
Net assets, end of year	<u>\$ 9,711,687</u>	<u>\$ 83,785</u>	<u>\$ 9,795,472</u>

See accompanying independent auditors' report.

**BORDEAUX LONG-TERM CARE AND KNOWLES HOME SCHEDULE III
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS – BUDGET (UNAUDITED) AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	Budget* (Unaudited)	Actual	Variance
Operating revenues:			
Net patient service revenue (net of estimated provision for bad debts of \$455,930 for budgeted 2010 and \$1,421,620 for actual 2010)	\$ 29,753,652	\$ 27,316,490	\$ (2,437,162)
Other	1,813,081	1,252,795	(560,286)
Total operating revenues	<u>31,566,733</u>	<u>28,569,285</u>	<u>(2,997,448)</u>
Operating expenses:			
Professional care of patients	26,315,898	26,347,531	(31,633)
Household and property	5,820,448	5,445,538	374,910
Dietary	3,849,564	3,711,145	138,419
Administrative and general	3,509,859	2,840,188	669,671
Licenses and fees	938,181	938,499	(318)
Allocation under metropolitan government-wide cost allocation plan	2,356,869	2,243,372	113,497
Depreciation	1,106,581	991,797	114,784
Total operating expenses	<u>43,897,400</u>	<u>42,518,070</u>	<u>1,379,330</u>
Operating loss	<u>(12,330,667)</u>	<u>(13,948,785)</u>	<u>(1,618,118)</u>
Nonoperating revenues (expenses):			
Revenue from the Primary Government	11,161,837	11,861,262	699,425
Investment income	36,177	1,354	(34,823)
Loss on disposal of capital assets	-	(657)	(657)
Nonoperating revenues, net	<u>11,198,014</u>	<u>11,861,959</u>	<u>663,945</u>
Deficiency of revenues over expenses before contributions	(1,132,653)	(2,086,826)	(954,173)
Contributions for capital	-	137,060	137,060
Decrease in net assets	<u>\$ (1,132,653)</u>	<u>\$ (1,949,766)</u>	<u>\$ (817,113)</u>

* The budget was approved in total by the city council of the Primary Government and further delineated on a line-by-line basis by facility management.

See accompanying independent auditors' report.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME SCHEDULE IV
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS – BUDGET (UNAUDITED) AND ACTUAL
BORDEAUX LONG-TERM CARE
YEAR ENDED JUNE 30, 2010

	Budget* (Unaudited)	Actual	Variance
Operating revenues:			
Net patient service revenue (net of estimated provision for bad debts of \$441,590 for budgeted 2010 and \$1,389,305 for actual 2010)	\$ 28,533,732	\$ 26,028,910	\$ (2,504,822)
Other	1,575,149	1,039,194	(535,955)
Total operating revenues	<u>30,108,881</u>	<u>27,068,104</u>	<u>(3,040,777)</u>
Operating expenses:			
Professional care of patients	24,211,014	24,278,624	(67,610)
Household and property	5,038,892	4,729,409	309,483
Dietary	3,180,135	3,112,361	67,774
Administrative and general	3,232,086	2,642,868	589,218
Licenses and fees	936,457	936,359	98
Allocation under metropolitan government-wide cost allocation plan	2,283,714	2,157,331	126,383
Depreciation	1,042,581	925,557	117,024
Total operating expenses	<u>39,924,879</u>	<u>38,782,509</u>	<u>1,142,370</u>
Operating loss	<u>(9,815,998)</u>	<u>(11,714,405)</u>	<u>(1,898,407)</u>
Nonoperating revenues (expenses):			
Revenue from the Primary Government	9,390,249	10,406,968	1,016,719
Investment income	13,339	43	(13,296)
Loss on disposal of capital assets	-	(1,136)	(1,136)
Nonoperating revenues, net	<u>9,403,588</u>	<u>10,405,875</u>	<u>1,002,287</u>
Deficiency of revenues over expenses before contributions	(412,410)	(1,308,530)	(896,120)
Contributions for capital	-	110,050	110,050
Decrease in net assets	<u>\$ (412,410)</u>	<u>\$ (1,198,480)</u>	<u>\$ (786,070)</u>

* The budget was approved in total by the city council of the Primary Government and further delineated on a line-by-line basis by facility management.

See accompanying independent auditors' report.

BORDEAUX LONG-TERM CARE AND KNOWLES HOME SCHEDULE V
(ENTERPRISE FUNDS OF THE HOSPITAL AUTHORITY OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY, TENNESSEE)
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS – BUDGET (UNAUDITED) AND ACTUAL
KNOWLES HOME
YEAR ENDED JUNE 30, 2010

	Budget* (Unaudited)	Actual	Variance
Operating revenues:			
Net patient service revenue (net of estimated provision for bad debts of \$14,340 for budgeted 2010 and \$32,315 for actual 2010)	\$ 1,219,920	\$ 1,287,580	\$ 67,660
Other	237,932	213,601	(24,331)
Total operating revenues	<u>1,457,852</u>	<u>1,501,181</u>	<u>43,329</u>
Operating expenses:			
Professional care of patients	2,104,884	2,068,907	35,977
Household and property	781,556	716,129	65,427
Dietary	669,429	598,784	70,645
Administrative and general	277,773	197,320	80,453
Licenses and fees	1,724	2,140	(416)
Allocation under metropolitan government-wide cost allocation plan	73,155	86,041	(12,886)
Depreciation	64,000	66,240	(2,240)
Total operating expenses	<u>3,972,521</u>	<u>3,735,561</u>	<u>236,960</u>
Operating loss	<u>(2,514,669)</u>	<u>(2,234,380)</u>	<u>280,289</u>
Nonoperating revenues (expenses):			
Revenue from the Primary Government	1,771,588	1,454,294	(317,294)
Investment income	22,838	1,311	(21,527)
Gain on disposal of capital assets	-	479	479
Nonoperating revenues, net	<u>1,794,426</u>	<u>1,456,084</u>	<u>(338,342)</u>
Deficiency of revenues over expenses before contributions	(720,243)	(778,296)	(58,053)
Contributions for capital	-	27,010	27,010
Decrease in net assets	<u>\$ (720,243)</u>	<u>\$ (751,286)</u>	<u>\$ (31,043)</u>

* The budget was approved in total by the city council of the Primary Government and further delineated on a line-by-line basis by facility management.

See accompanying independent auditors' report.



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

To the Board of Trustees of the
Hospital Authority of the Metropolitan Government
of Nashville and Davidson County, Tennessee:

We have audited the combined financial statements of Bordeaux Long-Term Care ("BLTC") and Knowles Home ("Knowles"), enterprise funds of the Hospital Authority of the Metropolitan Government of Nashville and Davidson County, Tennessee (the "Hospital Authority"), which is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of and for the year ended June 30, 2010, and have issued our report thereon dated October 31, 2010. 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 BLTC's and Knowles' 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 BLTC's and Knowles' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of BLTC's and Knowles' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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

To the Board of Trustees of the
Hospital Authority of the Metropolitan Government
of Nashville and Davidson County, Tennessee:

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BLTC's and Knowles' combined financial statements are free of material misstatement, we performed tests of their 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*.

We noted certain matters that we reported to management of BLTC and Knowles in a separate letter dated October 31, 2010.

* * * * *

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

Crosselin & Associates, P.C.

October 31, 2010
Nashville, Tennessee