

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

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Years Ended June 30, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Bledsoe County Nursing Home (a component unit of Bledsoe County, Tennessee), as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bledsoe County Nursing Home (a component unit of Bledsoe County, Tennessee), as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2010, on our consideration of Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Burt, Paulman, Nelson & Higgins, PLLC

Chattanooga, Tennessee
December 7, 2010

BLEDSOE COUNTY NURSING HOME

Management's Discussion and Analysis

This discussion and analysis is intended to serve as an introduction to the June 30, 2010 and 2009 financial statements of the Bledsoe County Nursing Home ("BCNH"), a component unit of Bledsoe County, Tennessee. Please read it in conjunction with BCNH's audited financial statements.

The Financial Statements

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

The balance sheets include all of Bledsoe County Nursing Home's assets and liabilities as of June 30, 2010 and 2009. The statement also presents the balance of assets in excess of liabilities, or net assets.

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

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

Financial Highlights

BCNH assets exceeded its liabilities at June 30, 2010 and 2009.

Financial Analysis

Financial Position

Total assets, total liabilities and total net assets at June 30, 2010 and 2009, follow:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase (Decrease)</u>
Current assets	\$ 654,918	\$ 734,989	\$ (80,071)
Assets limited as to use			
Resident trust fund	23,715	17,017	6,698
Property and equipment, net	<u>583,098</u>	<u>430,986</u>	<u>152,112</u>
TOTAL ASSETS	<u>\$1,261,731</u>	<u>1,182,992</u>	<u>\$ 78,739</u>
Current liabilities	\$ 186,743	\$ 341,256	\$ (154,513)
Other liabilities			
Resident trust fund	<u>23,715</u>	<u>17,017</u>	<u>6,698</u>
TOTAL LIABILITIES	<u>210,458</u>	<u>358,273</u>	<u>\$(147,815)</u>

Management's Discussion and Analysis
(Continued)

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase (Decrease)</u>
Net assets			
Invested in capital assets, net of related debt	541,735	430,986	110,749
Unrestricted	<u>509,538</u>	<u>393,733</u>	<u>115,805</u>
Total net assets	<u>1,051,273</u>	<u>824,719</u>	<u>226,554</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,261,731</u>	<u>\$1,182,992</u>	<u>\$ 78,739</u>

Operations

Components of the Nursing Home's operating revenues, operating expenses, and nonoperating income for the years ended June 30, 2010 and 2009, follow.

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase (Decrease)</u>
Operating Revenues:			
Net patient service revenue	\$2,504,805	\$2,357,766	\$147,039
Rental income	12,000	12,000	--
Other revenue	<u>130</u>	<u>220</u>	<u>(90)</u>
Total Operating Revenue	<u>2,516,935</u>	<u>2,369,986</u>	<u>146,949</u>
Operating expenses:			
Salaries and benefits	1,388,425	1,493,587	(105,162)
Medical supplies and drugs	75,449	72,731	2,718
Insurance	124,597	134,350	(9,753)
Other supplies	75,661	84,288	(8,627)
Depreciation	59,552	30,424	29,128
Other expenses	<u>791,693</u>	<u>794,193</u>	<u>(2,500)</u>
Total operating expenses	<u>2,515,377</u>	<u>2,609,573</u>	<u>(94,196)</u>
Operating income (loss)	1,558	(239,587)	241,145
Nonoperating income			
Interest income	<u>2,937</u>	<u>7,104</u>	<u>(4,167)</u>
Income (loss) before contributions	4,495	(232,483)	236,978
Capital grants and contributions			
Capital grant	57,059	170,141	(113,082)
Capital contributions	<u>165,000</u>	<u>--</u>	<u>165,000</u>
Total capital grants and contributions	<u>222,059</u>	<u>170,141</u>	<u>51,918</u>
Increase (decrease) in unrestricted net assets	226,554	(62,342)	288,896
Net assets, beginning of year	<u>824,719</u>	<u>887,061</u>	<u>(62,342)</u>
Net assets, end of year	<u>\$1,051,273</u>	<u>\$ 824,719</u>	<u>\$226,554</u>

Management's Discussion and Analysis
(Continued)

In fiscal year ended 2010, we experienced a \$147,039 increase in patient service revenue.

Nonoperating Income

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

The Nursing Home's Cash Flow

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

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2010, the Bledsoe County Nursing Home had \$541,735 invested in capital assets, net of accumulated depreciation, as detailed in Note E to the financial statements.

Debt. Bledsoe County Nursing Home had no debt at June 30, 2010 or 2009.

Other Economic Factors

The Nursing Home received a capital contribution from the Bledsoe County Commission in the amount of \$165,000. In addition to the grant received from the Tennessee Department of Finance in 2009, these proceeds were used for physical space renovations and supplies for the Nursing Home's Adult Day Care Services. At June 30, 2010, all proceeds had been used and renovations were complete.

Contacting the Nursing Home's Financial Management

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

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

BALANCE SHEETS

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 263,730	\$ 383,511
Certificates of deposit	158,000	158,000
Patient accounts receivable, net of allowance for doubtful accounts of \$20,000 in 2010 and in 2009	206,699	154,292
Prepaid expenses	<u>26,489</u>	<u>39,186</u>
TOTAL CURRENT ASSETS	<u>654,918</u>	<u>734,989</u>
ASSETS LIMITED AS TO USE		
Resident trust fund	<u>23,715</u>	<u>17,017</u>
CAPITAL ASSETS, net	<u>583,098</u>	<u>430,986</u>
TOTAL ASSETS	<u>\$1,261,731</u>	<u>\$1,182,992</u>

See accompanying notes.

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

BALANCE SHEETS

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable:		
Trade	\$ 90,250	\$ 192,248
Accrued liabilities:		
Salaries and wages	60,051	55,932
Accrued vacation	27,042	27,042
Other	9,400	8,975
Deferred revenue	<u> --</u>	<u>57,059</u>
TOTAL CURRENT LIABILITIES	<u>186,743</u>	<u>341,256</u>
OTHER LIABILITIES		
Resident trust fund liability	<u>23,715</u>	<u>17,017</u>
TOTAL LIABILITIES	<u>210,458</u>	<u>358,273</u>
NET ASSETS		
Invested in capital assets	541,735	430,986
Unrestricted	<u>509,538</u>	<u>393,733</u>
TOTAL NET ASSETS	<u>1,051,273</u>	<u>824,719</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,261,731</u>	<u>\$1,182,992</u>

See accompanying notes.

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

STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Net patient service revenue	\$2,504,805	\$2,357,766
Rental income	12,000	12,000
Other revenue	<u>130</u>	<u>220</u>
TOTAL REVENUES	<u>2,516,935</u>	<u>2,369,986</u>
EXPENSES		
Salaries and benefits	1,388,425	1,493,587
Medical supplies and drugs	75,449	72,731
Insurance	124,597	134,350
Other supplies	75,661	84,288
Depreciation	59,552	30,424
Other expenses	<u>791,693</u>	<u>794,193</u>
TOTAL EXPENSES	<u>2,515,377</u>	<u>2,609,573</u>
OPERATING INCOME (LOSS)	<u>1,558</u>	<u>(239,587)</u>
NONOPERATING INCOME		
Interest income	<u>2,937</u>	<u>7,104</u>
TOTAL NONOPERATING INCOME	<u>2,937</u>	<u>7,104</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<u>4,495</u>	<u>(232,483)</u>
CAPITAL GRANTS AND CONTRIBUTIONS		
Capital grant	57,059	170,141
Capital contribution	<u>165,000</u>	<u>--</u>
TOTAL CAPITAL GRANTS AND CONTRIBUTIONS	<u>222,059</u>	<u>170,141</u>
INCREASE (DECREASE) IN NET ASSETS	226,554	(62,342)
Net assets, beginning of year	<u>824,719</u>	<u>887,061</u>
Net assets, end of year	<u>\$1,051,273</u>	<u>\$ 824,719</u>

See accompanying notes.

BLEDSOE COUNTY NURSING HOME (A COMPONENT UNIT
OF BLEDSOE 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	\$2,452,399	\$2,282,824
Cash payments to suppliers for goods and services	(1,213,335)	(915,340)
Cash payments to employees for services	(1,384,307)	(1,486,831)
Other revenue	130	220
Proceeds from rental of facilities	<u>12,000</u>	<u>12,000</u>
 NET CASH USED BY OPERATING ACTIVITIES	 <u>(133,113)</u>	 <u>(107,127)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(211,664)	(185,835)
Capital grant	<u>222,059</u>	<u>170,141</u>
 NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	 <u>10,395</u>	 <u>(15,694)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>2,937</u>	<u>7,104</u>
 Net decrease in cash	 (119,781)	 (115,717)
Cash at beginning of year	<u>383,511</u>	<u>499,228</u>
 Cash at end of year	 <u>\$ 263,730</u>	 <u>\$ 383,511</u>

See accompanying notes.

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

STATEMENTS OF CASH FLOWS
(Continued)

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 1,558	\$(239,587)
Adjustments to reconcile operating income to net cash (used) provided by operating activities:		
Depreciation	59,552	30,424
Provision for bad debts	20,917	60,361
(Increase) decrease in:		
Patient accounts receivable	(73,324)	(135,303)
Prepaid expenses	12,697	38,107
Increase (decrease) in:		
Accounts payable	(101,998)	74,631
Accrued liabilities	4,544	7,181
Deferred revenue	<u>(57,059)</u>	<u>57,059</u>
 NET CASH USED BY OPERATING ACTIVITIES	 <u>\$ (133,113)</u>	 <u>\$(107,127)</u>

See accompanying notes.

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

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Use of Estimates

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

Enterprise Fund Accounting

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

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Nursing Home considers currency on hand and demand deposits with financial institutions to be cash. The Nursing Home considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash in patient trust funds is not considered cash or a cash equivalent since balances therein are held by the Nursing Home in an agency capacity for various patients. State statutes authorize the Nursing Home to invest in obligations of the U.S. Treasury, bank certificates of deposit, state approved repurchase agreements, and pooled investment funds, state or local bonds, rated A or higher by a nationally recognized rating service. There were no cash equivalents at June 30, 2010 and 2009.

Patient Receivables

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

Accounting Standards

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

Assets Limited as to Use

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

Capital Assets

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

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

Operating Revenues and Expenses

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

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

Revenue from the Medicaid program accounted for approximately 95% and 92%, respectively, of the Nursing Home's net patient service revenue for the years ended June 30, 2010 and 2009.

Other operating revenues include charges for telephones and laundry services.

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

Charity Care

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

Income Taxes

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

Risk Management

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

NOTE B - MANAGEMENT CONTRACT

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

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

The management fee expense amounted to \$130,000 in 2010 and 2009.

NOTE C – DEPOSITS AND CERTIFICATES OF DEPOSIT

The carrying amounts of the Nursing Home's deposits with commercial banks are \$445,445 and \$558,513 and the bank balances were \$501,531 and \$561,698 at June 30, 2010 and 2009, respectively.

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Nursing Home's deposits may not be returned to it. Of the bank balance for June 30, 2010, \$307,879 was covered by federal depository insurance and \$193,652 was covered by collateral held in the pledging bank's trust department in the Nursing Home's name.

Interest Rate Risk

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

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

The Nursing Home maintains a single \$158,000 certificate of deposit with a local financial institution. The certificate of deposit is nonnegotiable and renews automatically at the end of each month. The stated interest rate at June 30, 2010 was 0.50%.

NOTE D - ASSETS LIMITED AS TO USE

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

The composition of assets whose use is limited is:

	<u>2010</u>	<u>2009</u>
Resident trust fund	<u>\$23,715</u>	<u>\$17,017</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE E - CAPITAL ASSETS

Capital assets consist of the following:

	Balance at June 30, 2009	Additions	Deletions	Balance at June 30, 2010
Capital assets not being depreciated:				
Construction in progress	\$ <u>170,141</u>	\$ --	\$ <u>170,141</u>	\$ --
Capital assets being depreciated:				
Land improvements	48,696	--	--	48,696
Building	876,903	307,938	--	1,184,841
Fixed equipment	214,381	33,925	--	248,306
Major moveable equipment	42,698	--	--	42,698
Minor moveable equipment	34,150	39,942	--	74,092
Total capital assets being depreciated	<u>1,216,828</u>	<u>381,805</u>	<u>--</u>	<u>1,598,633</u>
Less accumulated depreciation for:				
Land improvements	39,931	377	--	40,308
Building	650,585	52,133	--	702,718
Fixed equipment	194,960	4,635	--	199,595
Major moveable equipment	42,698	--	--	42,698
Minor moveable equipment	27,809	2,407	--	30,216
Total accumulated depreciation	<u>955,983</u>	<u>59,552</u>	<u>--</u>	<u>1,015,535</u>
Total capital assets being depreciated, net	<u>260,845</u>	<u>322,253</u>	<u>--</u>	<u>583,098</u>
Capital assets, net	\$ <u>430,986</u>	\$ <u>322,253</u>	\$ <u>170,141</u>	\$ <u>583,098</u>
	Balance at June 30, 2008	Additions	Deletions	Balance at June 30, 2009
Capital assets not being depreciated:				
Construction in progress	\$ --	\$ <u>170,141</u>	\$ --	\$ <u>170,141</u>
Capital assets being depreciated:				
Land improvements	48,696	--	--	48,696
Building	876,903	--	--	876,903
Fixed equipment	205,433	8,948	--	214,381
Major moveable equipment	42,698	--	--	42,698
Minor moveable equipment	27,404	6,746	--	34,150
Total capital assets being depreciated	<u>1,201,134</u>	<u>15,694</u>	<u>--</u>	<u>1,216,828</u>
Less accumulated depreciation for:				
Land improvements	39,554	377	--	39,931
Building	623,161	27,424	--	650,585
Fixed equipment	192,742	2,218	--	194,960
Major moveable equipment	42,698	--	--	42,698
Minor moveable equipment	27,404	405	--	27,809
Total accumulated depreciation	<u>925,559</u>	<u>30,424</u>	<u>--</u>	<u>955,983</u>
Total capital assets being depreciated, net	<u>275,575</u>	(14,730)	<u>--</u>	<u>260,845</u>
Capital assets, net	\$ <u>275,575</u>	\$ <u>155,411</u>	\$ --	\$ <u>430,986</u>

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE F - PURCHASED SERVICES

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

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

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

	<u>2010</u>	<u>2009</u>
Dietary purchased services	<u>\$363,848</u>	<u>\$348,132</u>

The total amount of unpaid expense due to the Hospital amounted to \$76,380 and \$62,530 at June 30, 2010 and 2009, respectively.

NOTE G - COMPENSATED ABSENCES

Nursing Home employees are paid for vacation time by a prescribed formula based on length of service. Upon termination, employees of the Nursing Home are compensated for any vacation time earned but not taken. Compensated absence liabilities of \$27,042 are reported at June 30, 2010 and 2009.

NOTE H - CONCENTRATIONS OF CREDIT RISK

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

	<u>2010</u>	<u>2009</u>
Medicaid	91%	91%
Patient	<u>9</u>	<u>9</u>
	<u>100%</u>	<u>100%</u>

NOTE I - COMMITMENTS AND CONTINGENCIES

Operating Leases

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

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

NOTES TO FINANCIAL STATEMENTS
(Continued)

There are no future minimum lease payments under operating leases as of June 30, 2010 and 2009, that have initial or remaining lease terms in excess of one year.

Total rental expense in 2010 and 2009 for all operating leases was \$3,557 and \$3,076, respectively.

Claims-made Insurance Policy

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

Charity Care

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

NOTE J - NET WORKING CAPITAL

Net working capital at June 30, 2010 and 2009, was \$468,175 and \$393,733, respectively.

NOTE K - GRANT INCOME

In 2010, the Nursing Home received a capital contribution from the Bledson County Commission in the amount of \$165,000. The Nursing Home also received a grant in 2009 from the Tennessee Department of Finance in the amount of \$227,200. The proceeds from both were used for physical space renovations and supplies for the Nursing Home's Adult Day Care Services. At June 30, 2010, all proceeds had been used on the completed renovations.

NOTE L - SUBSEQUENT EVENTS

The Nursing Home noted no transactions that would provide evidence about material conditions that did not exist at the balance sheet date but arose subsequently, through the date these financial statements were available to be issued, December 7, 2010.

SUPPLEMENTARY INFORMATION

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

SCHEDULE 1 - NET PATIENT SERVICE REVENUE

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
PATIENT REVENUE		
Routine	\$2,541,883	\$2,466,933
Central service and supply	18,599	18,302
Pharmacy	<u>38,016</u>	<u>39,464</u>
	<u>2,598,498</u>	<u>2,524,699</u>
REVENUE DEDUCTIONS		
Medicaid contractual adjustment	72,776	106,572
Provision for bad debts	<u>20,917</u>	<u>60,361</u>
	<u>93,693</u>	<u>166,933</u>
NET PATIENT SERVICE REVENUE	<u>\$2,504,805</u>	<u>\$2,357,766</u>

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

SCHEDULE 2 - SALARIES AND BENEFITS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NURSING SERVICES		
Routine	\$ <u>790,060</u>	\$ <u>842,599</u>
OTHER PROFESSIONAL SERVICES		
Pharmacy	<u>1,920</u>	<u>2,420</u>
GENERAL SERVICES		
Housekeeping	144,033	149,868
Plant operation, maintenance, and social services	<u>86,827</u>	<u>88,045</u>
TOTAL GENERAL SERVICES	<u>230,860</u>	<u>237,913</u>
ADMINISTRATIVE AND FISCAL SERVICES		
Administrative and business office	<u>365,585</u>	<u>410,655</u>
TOTAL SALARIES AND BENEFITS	<u>\$1,388,425</u>	<u>\$1,493,587</u>

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

SCHEDULE 3 - MEDICAL SUPPLIES AND DRUGS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NURSING SERVICES		
Routine	<u>\$60,508</u>	<u>\$53,097</u>
OTHER PROFESSIONAL SERVICES		
Pharmacy	<u>14,941</u>	<u>19,634</u>
TOTAL MEDICAL SUPPLIES AND DRUGS	<u>\$75,449</u>	<u>\$72,731</u>

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

SCHEDULE 4 - OTHER SUPPLIES

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
GENERAL SERVICES		
Dietary	\$ 664	\$ 1,341
Housekeeping	62,759	61,118
Plant operation, maintenance, and social services	<u>10,398</u>	<u>12,541</u>
TOTAL GENERAL SERVICES	<u>73,821</u>	<u>75,000</u>
ADMINISTRATIVE AND FISCAL SERVICES		
Administrative and business office	<u>1,840</u>	<u>9,288</u>
TOTAL OTHER SUPPLIES	<u>\$75,661</u>	<u>\$84,288</u>

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

SCHEDULE 5 - OTHER EXPENSES

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
NURSING SERVICES		
Routine	\$ <u>8,662</u>	\$ <u>5,909</u>
GENERAL SERVICES		
Dietary	363,848	348,132
Plant operation, maintenance, and social services	<u>107,874</u>	<u>127,890</u>
TOTAL GENERAL SERVICES	<u>471,722</u>	<u>476,022</u>
ADMINISTRATIVE AND FISCAL SERVICES		
Administrative and business office	<u>311,309</u>	<u>312,262</u>
TOTAL OTHER EXPENSES	<u>\$791,693</u>	<u>\$794,193</u>

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

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

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

We have audited the financial statements of Bledsoe County Nursing Home (a component unit of Bledsoe County, Tennessee) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 7, 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 Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) internal control over financial reporting.

A *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 significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as Finding 2009-1, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

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

Chattanooga, Tennessee
December 7, 2010

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

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2010

PRIOR YEAR FINDINGS

Finding Control Number and Status

2009-1: Still outstanding for 2010

CURRENT YEAR FINDINGS AND RESPONSES

Finding 2009-1: Reconciliation of Balance Sheet Accounts

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

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

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

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

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

Planned Corrective Action: Management's response is located on page 27.

December 7, 2010

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

Bledsoe County Nursing Home (A Component Unit of Bledsoe County, Tennessee) submits the following plan for corrective action regarding reportable conditions associated with our internal controls and compliance for the year ended June 30, 2010.

The "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards" issued by Burk, Pearlman, Nebben & Huggins, PLLC, on December 7, 2010, referenced instances of noncompliance and reportable conditions. The corrective action taken on these items is as follows:

Finding 2009-1

RECONCILIATION OF BALANCE SHEET ACCOUNTS

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

Corrective Action Plan/Management Response

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

Sincerely,

Stephanie Boynton
Administrator