OVERTON COUNTY NURSING HOME

LIVINGSTON, TENNESSEE

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2010

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INTRODUCTORY SECTION

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Board of Directors and Administrator (unaudited)

June 30, 2010

E. Alan Atnip, Chairman

Stanley Carter, Jr., Vice Chairman

Billie Phipps

Gregg Nivens

Jeff Staggs

Jennifer Bouldin, Administrator

FINANCIAL SECTION

JOBE, HASTINGS & ASSOCIATES
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Donna K. Hastings, CPA, CSEP
James R. Jobe, CPA
Joel H. Jobe *(1944 - 2006)*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Overton County Nursing Home
Livingston, Tennessee

We have audited the accompanying statement of net assets of Overton County Nursing Home, a component unit of Overton County, Tennessee as of June 30, 2010, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of Overton County Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated August 20, 2010 on our consideration of Overton County Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

John, Hastings & Associates
Certified Public Accountants

Murfreesboro, Tennessee
August 20, 2010

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Statement of Net Assets

June 30, 2010

ASSETS		
Current Assets-		
Cash	$	796,835
Cash - restricted		11,666
Certificates of deposit		1,385,325
Cash - patients' funds		43,158
Patient accounts receivable, net of allowance of $45,000		1,386,242
Accrued interest receivable		16,137
Prepaid expense		1,000
TOTAL CURRENT ASSETS	$	3,640,363
Property and Equipment-		
Land improvements	$	96,508
Building and improvements		2,630,441
Transportation equipment		27,600
Equipment		1,220,655
	$	3,975,204
Less: Accumulated depreciation		2,823,547
	$	1,151,657
Land		56,500
Construction in progress		142,239
	$	1,350,396
TOTAL ASSETS	$	4,990,759
LIABILITIES		
Current Liabilities-		
Accounts payable - trade	$	226,941
Retainage payable		11,666
Accrued salaries and wages payable		147,274
Compensated absences		118,166
Accrued payroll taxes and employee withholdings		30,118
Patients' funds held in trust		43,158
Estimated third-party payor settlements		4,182
Current portion of capitalized lease obligation		3,803
TOTAL CURRENT LIABILITIES	$	585,308
Long-term Liabilities -		
Capitalized lease obligation, less current portion		10,025
TOTAL LIABILITIES	$	595,333
NET ASSETS		
Net Assets -		
Invested in capital assets, net of related debt	$	1,336,568
Unrestricted net assets		3,058,858
TOTAL NET ASSETS	$	4,395,426
TOTAL LIABILITIES AND NET ASSETS	$	4,990,759

See notes to financial statements.

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Statement of Revenues, Expenses and Changes in Fund Net Assets

For the Year Ended June 30, 2010

Operating Revenues -		
Net patient service revenue		$ 7,501,151
Other revenue		19,827
		$ 7,520,978
Operating Expenses -		
Medical and nursing services		$ 2,703,635
Dietary services		897,957
Employee benefits		776,176
Therapy and ancillary services		756,058
Administrative and general		504,192
Plant operation and maintenance		494,150
Bed license fees		356,000
Housekeeping services		243,812
Laundry and linen		184,332
Depreciation		132,863
Recreational activities		90,440
Social services		46,234
Medical records		40,297
Other operating expenses		14,834
		$ 7,240,980
	OPERATING INCOME	$ 279,998
Nonoperating Revenues (Expenses) -		
Interest income		$ 27,837
Loss on disposal of capital assets		(140)
Interest expense		(2,370)
		$ 25,327
	CHANGE IN NET ASSETS	$ 305,325
Net Assets at Beginning of Year		4,090,101
	NET ASSETS AT END OF YEAR	$ 4,395,426

See notes to financial statements.

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Statement of Cash Flows

For the Year Ended June 30, 2010

Cash Flows from Operating Activities -		
Received from residents and third-party payors	$	6,941,057
Received from others		19,827
Paid to suppliers for goods and services		(3,399,928)
Paid to employees for services		(3,636,543)
NET CASH USED FOR OPERATING ACTIVITIES	$	(75,587)
Cash Flows from Capital and Related Financing Activities -		
Purchase of property and equipment	$	(81,344)
Disbursements for construction in progress		(130,573)
Increase in cash - restricted		(11,666)
Payments on capitalized lease obligation		(3,271)
Interest paid on capitalized lease obligation		(2,370)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	$	(229,224)
Cash Flows from Investing Activities -		
Interest earned	$	5,502
Increase in certificates of deposit		(500,000)
NET CASH USED FOR INVESTING ACTIVITIES	$	(494,498)
NET DECREASE IN CASH	$	(799,309)
Cash and cash equivalents July 1, 2009		1,596,144
CASH JUNE 30, 2010	$	796,835

Reconciliation of Operating Income to Net Cash Used for Operating Activities -		
Operating income	$	279,998
Adjustments to reconcile operating income to net cash used for operating activities -		
Depreciation		132,863
Provision for bad debts		60,035
Changes in assets and liabilities -		
Increase in patient accounts receivable		(653,530)
Decrease in prepaid expense		25,509
Increase in accounts payable-trade		45,871
Increase in accrued salaries and wages payable		8,712
Increase in compensated absences		4,995
Decrease in accrued payroll taxes and employee withholdings		(13,441)
Decrease in estimated third-party payor settlements		33,401
NET CASH USED FOR OPERATING ACTIVITIES	$	(75,587)

Non Cash Investing, Capital, and Financing Activities -		
Interest earnings added to certificate of deposit	$	6,198
Accrued interest earnings on certificate of deposit		16,137
Retainage payable for construction in progress		11,666

See notes to financial statements.

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Notes to Financial Statements

June 30, 2010

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Organization - Overton County Nursing Home is a non-profit corporation chartered under the laws of the State of Tennessee on April 5, 1962, operating as a political subdivision of Overton County, Tennessee (the County). The purpose of the Nursing Home is to provide nursing care to residents primarily from the Overton County area. The corporation is managed by a board of five directors who are county commissioners, appointed by the County Commission of Overton County, Tennessee.

Financial Reporting Entity – Component Unit - As specified and described by Standard 14 of the Governmental Accounting Standards Board (GASB); the Nursing Home is a component unit of the primary government of Overton County, Tennessee. The Nursing Home reports its financial information separately from Overton County; however, the County in its financial report also presents the Nursing Home's financial information.

Legally, the Nursing Home is a separate nonprofit entity that has considerable legal, financial and administrative autonomy. However, as the governing board is not elected but instead is entirely appointed by the County's board of Commissioners, the Nursing Home cannot be a primary government. Instead it qualifies as a component unit according to the directives of GASB.

GASB 14 specifies that component units must be legally separate organizations which have financial accountability to a primary government. Financial accountability exists prima facie if a special-purpose government is not fiscally independent. GASB states that to be fiscally independent, the government has to have the authority to do all of three activities. One of these activities is to issue bonded debt without approval by another government. Overton County Nursing Home may not issue debt without Overton County, Tennessee's approval and the County remains contingently liable for all debt obligations. Because the Nursing Home is both a legal entity and financially accountable to the primary government of Overton County as the County Commission appoints all members of the governing board and by the nature of its fiscal dependence on Overton County as described above, it is a component unit of Overton County, Tennessee.

At June 30, 2010, there were no related receivables or payables between Overton County and the Nursing Home. The Nursing Home did not engage in any activities that were subject to the approval of Overton County.

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

As a component unit of Overton County, the accounts of the Nursing Home are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Nursing Home's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured by a pledge of the net revenues from fees and charges of the activity, or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cash Flow - Cash and Cash Equivalents - Overton County Nursing Home presents its cash flow statement using the direct method. For purposes of cash flow presentation, the Nursing Home considers cash in operating bank accounts, cash on hand, and certificates of deposit, which have original maturities of three months or less as cash and cash equivalents. At June 30, 2010, there were no certificates of deposit that qualified as cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable are stated at the amount that the Nursing Home expects to collect from outstanding balances. The Nursing Home provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based upon a review of outstanding receivables, historical collection information and existing economic conditions. The allowance for doubtful accounts was $45,000 at June 30, 2010. Account balances are charged against the allowance after reasonable collection efforts have been exhausted and the potential for recovery is considered remote.

Net Patient Revenue - Gross patient revenue is recorded on an accrual basis based on services rendered at amounts equal to established rates. Allowances for contractual adjustments are recorded for the differences between established rates and amounts estimated to be paid by the Medicare and Medicaid programs and other third party payors. Contractual adjustments are deducted from gross patient revenue to determine net patient revenue. Amounts paid under the Medicare and Medicaid programs are generally based on fixed rates per patient day, adjusted prospectively. All amounts earned under the Medicare, Medicaid, and other governmental programs are subject to review by the third party payors. Any differences between estimated settlements and final determinations are reflected in operations in the year finalized.

Property and Equipment - Property and equipment are stated at cost. Purchases in excess of $1,000 are capitalized. For financial statement purposes, depreciation of property and equipment is provided using the straight-line method. The Nursing Home estimates the useful lives of the respective classes of plant and equipment as follows:

Land improvements	5-20 years
Building and improvements	5-50 years
Transportation equipment	4-5 years
Equipment	3-25 years

Maintenance and repairs are charged to operations when incurred. The Nursing Home eliminates the costs and related allowances from the accounts for properties sold or retired, and any resulting gains or losses are included in income.

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

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes – The Internal Revenue Service has determined that the Nursing Home is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes.

Operating Revenues and Expenses – The Nursing Home's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its principal ongoing operations. All other revenues and expenses are reported as non-operating revenues and expenses and consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Subsequent Events - Management has evaluated subsequent events through August 20, 2010, the date the financial statements were available to be issued.

Note B – CASH AND CERTIFICATES OF DEPOSIT

The Nursing Home is authorized to make investments in bonds, notes or treasury bills of the United States, Federal Loan Bank bonds, Federal Home Loan Bank notes and bonds, Federal National Mortgage Association notes and debentures, banks or cooperative debentures, or any of its other agencies, or obligations guaranteed as to principal and interest by the United States or any of its agencies with a maturity not greater than one year, or in the pooled investment fund established under Tennessee law.

During the year ended June 30, 2010, the board of directors chose to limit the investment of funds to demand deposits and certificates of deposit accounts at banking institutions.

At June 30, 2010, the carrying amount of cash deposits, including patient funds, was $851,460 and the bank balance was $961,418. At June 30, 2010, the carrying amount of the certificate of deposit was $1,385,325 and the bank balance was $1,385,325. At June 30, 2010, the entire bank balance was covered by federal depository insurance, or pledged securities held as collateral in another institution in the name of the Nursing Home.

Note C – RESTRICTED CASH

Restricted cash consists of amounts set aside for retainage in accordance with the agreement with the contractor for the remodeling of the therapy wing of the Nursing Home. At June 30, 2010, $11,666 was restricted for this purpose.

Note D - PATIENT FUNDS HELD IN TRUST

At June 30, 2010, the Nursing Home held funds in the amount of $43,158 on behalf of the residents.

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

Note E – CAPITAL ASSETS

Capital assets are summarized as follows:

	July 1, 2009	Additions	Deletions	June 30, 2010
Capital assets, not being depreciated -				
Land	$ 56,500			$ 56,500
Construction in progress		$ 142,239		142,239
Subtotal	$ 56,500	$ 142,239		$ 198,739
Capital assets, being depreciated -				
Land improvements	$ 96,508			$ 96,508
Building and improvements	2,577,089	$ 71,816	$ 18,464	2,630,441
Transportation equipment	27,600			27,600
Equipment	1,304,145	9,528	93,018	1,220,655
Subtotal	$ 4,005,342	$ 81,344	$ 111,482	$ 3,975,204
Less accumulated depreciation -				
Land improvements	$ (27,390)	$ (5,494)		$ (32,884)
Building and improvements	(1,699,150)	(82,078)	$ 18,463	(1,762,765)
Transportation equipment	(22,950)	(1,240)		(24,190)
Equipment	(1,052,536)	(44,051)	92,879	(1,003,708)
Subtotal	$ (2,802,026)	$ (132,863)	$ 111,342	$ (2,823,547)
Capital assets, being depreciated net	$ 1,203,316	$ (51,519)	$ 140	$ 1,151,657
Total capital assets, net	$ 1,259,816	$ 90,720	$ 140	$ 1,350,396

Note F - PENSION PLAN

Plan Description - Employees of Overton County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The retirement plan for Overton County Nursing Home is included in the total retirement program for Overton County. Therefore, separate retirement information for the Nursing Home is not available. Details relative to the funding status and progress, actuarially determined contribution requirements and contribution made, and trend information regarding the retirement plan can be found in the Comprehensive Annual Financial Report for Overton County. Total contributions to the plan by the Nursing Home for the year ended June 30, 2010 amounted to $126,478.

The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Overton County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. Overton County requires employees to contribute 5.0 percent of earnable compensation and the County is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2010 was 4.79% of annual covered payroll. The contribution requirement of plan

Note F - PENSION PLAN (continued)

members is set by state statute. The contribution requirement for Overton County is established and may be amended by the TCRS Board of Trustees.

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

Note G - CONCENTRATION OF CREDIT RISK

The Nursing Home grants credits without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from patients and third-party payors are as follows:

Medicaid	56.97 %
Medicare	21.85 %
Insurance	15.78 %
Private	5.40 %

Note H - RISK MANAGEMENT

Risks related to the operation of the nursing home are managed through the purchase of commercial insurance policies. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage for the current year or for the prior five years.

Note I - HEALTH CARE REGULATIONS

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Nursing Home is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Note J - PROFESSIONAL LIABILITY CLAIMS AND INSURANCE

The long-term health care industry has experienced a dramatic increase in personal injury and wrongful death claims based on alleged negligence by nursing homes and their employees in providing care to residents. The Nursing Home is subject to claims and suits which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings has been adequately provided for through commercial insurance.

Note K – CAPITAL LEASE OBLIGATION

The Nursing Home entered into a capital lease agreement for the purchase of equipment during the year ended June 30, 2009. The lease term expires in July 2013. The asset and liability were recorded at the fair value of the asset. The asset was capitalized in the amount of $19,695 and accumulated amortization related to this asset was $2,626 at June 30, 2010. This amortization expense of $1,313 was included in depreciation expense. The lease is payable to Marlin Leasing Corporation and is secured by the equipment purchased. Payments are $470.11 per month, including principal and interest at 15.151% imputed fixed annual rate.

Note K – CAPITAL LEASE OBLIGATION (continued)

The future minimum lease payments due under the capital lease are as follows:

Year Ending June 30	Future Minimum Lease Payments	Amount Representing Interest	Principal Portion
2011	$ 5,641	$ 1,838	$ 3,803
2012	5,641	1,220	4,421
2013	5,642	502	5,140
2014	470	6	464
	$ 17,394	$ 3,566	$ 13,828

Activity related to the capital lease obligation for the year ended June 30, 2010, was as follows:

July 1, 2009	Additions	Deductions	June 30, 2010	One Year
$ 17,099		$ 3,271	$ 13,828	$ 3,803

Note L – COMMITMENT

During the fiscal year ended June 30, 2010, the Nursing Home entered into a construction contract for remodeling of the therapy wing. The total contract was in the amount of $180,068. As of June 30, 2010, $116,645 in costs had been incurred, leaving a commitment under the contract at June 30, 2010 in the amount of $63,423.

INTERNAL CONTROL AND COMPLIANCE SECTION

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Joel H. Jobe *(1944 - 2006)*

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

Board of Directors
Overton County Nursing Home
Livingston, Tennessee

We have audited the financial statements of Overton County Nursing Home, a component unit of Overton County, Tennessee, as of and for the year ended June 30, 2010 which collectively comprise Overton County Nursing Home's basic financial statements, and have issued our report thereon dated August 20, 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 Overton County Nursing Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Overton County Nursing Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Overton County Nursing Home's 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 control 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 a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting. (2010-1) 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 Overton County Nursing Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Overton County Nursing Home's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Overton County Nursing Home's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors of Overton County Nursing Home, management, state and federal audit agencies, others within the entity, and Overton County and is not intended to be and should not be used by anyone other than these specified parties.

John, Hastings + Associates
Certified Public Accountants

Murfreesboro, Tennessee
August 20, 2010

FINDING – FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

2010-1. Authorization for purchases and approval for payment of invoices

Condition: The Center's policy for the authorization of purchases and approval for payment of invoices is not being consistently applied. The Center requires signed purchase requisitions for all purchases as well as the use of a purchase order. The purchase requisitions are to be approved by the controller or the administrator prior to the purchase. Several invoices either did not have the purchase requisition and purchase order attached or the attached purchase requisition did not have the proper authorization. Also, several invoices were examined which did not indicate the approval for payment by the administrator.

Criteria: The Center's policy for the authorization of purchases and approval for payment of invoices should be consistently applied.

Effect: Unauthorized purchases could occur and invoices could be paid in error if the Center's authorization and approval policy is not followed or enforced.

Recommendation: The Center should communicate to all department heads or purchasing agent the policy of the Center regarding the purchase of goods or services. The accounts payable clerk should verify that proper approval for the purchase is attached and that all invoices are approved by the administrator prior to payment.

Response: All department heads and purchasing agents have been in-serviced regarding the proper procedure involved when making purchases for Overton County Nursing Home. The department heads or purchasing agents understand that signed purchase requisitions as well as signed purchase orders are required prior to purchase. The purchase requisitions must be approved by the controller or administrator. The accounts payable clerk has been in-serviced regarding approval of invoices for payment. The accounts payable clerk understands that the accounts payable clerk should verify that proper approvals have been obtained prior to processing an invoice and that the administrator must approve all invoices before payment can be made.