

WAYNE COUNTY RETIREMENT FACILITIES

WAYNESBORO, TENNESSEE

FINANCIAL STATEMENTS, ADDITIONAL INFORMATION
AND
REPORTS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2010 AND 2009

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Wayne County General Hospital Board of Trustees
Wayne County Retirement Facilities
Waynesboro, Tennessee

We have audited the accompanying statements of net assets (deficit) of the Wayne County Retirement Facilities (the "Facilities"), a component unit of Wayne County, Tennessee, as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Facilities' 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 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 the Facilities' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Facilities have not presented a Management's Discussion and Analysis that under accounting principles generally accepted in the United States is required to supplement, although not required to be a part of, the basic financial statements. Additionally, the Facilities have not presented certain supplementary information required by the *Audit Manual* issued by the State of Tennessee Department of Audit.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Wayne County Retirement Facilities as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010, on our consideration of the Facilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the above-mentioned basic financial statements taken as a whole. The accompanying additional information on pages 18-22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kraft CPAs PLLC

Columbia, Tennessee
December 22, 2010

WAYNE COUNTY RETIREMENT FACILITIES

STATEMENTS OF NET ASSETS (DEFICIT)

JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents - unrestricted - Note 2	\$ 450,967	\$ 447,027
Resident accounts receivable, net of allowance for uncollectible accounts of \$79,030 in 2010 (\$80,535 in 2009)	493,051	351,930
Due from State of Tennessee	8,582	68,334
Notes receivable - current portion - Note 3	1,791	1,721
Prepaid insurance	21,379	10,157
Inventories	<u>25,518</u>	<u>21,452</u>
TOTAL CURRENT ASSETS	<u>1,001,288</u>	<u>900,621</u>
ASSETS LIMITED AS TO USE		
Cash and cash equivalents - restricted - Note 2	<u>11,419</u>	<u>26,900</u>
TOTAL ASSETS LIMITED AS TO USE	<u>11,419</u>	<u>26,900</u>
OTHER ASSETS		
Bond issue costs, net of accumulated amortization	42,806	49,374
Notes receivable, excluding current portion - Note 3	<u>49,387</u>	<u>51,178</u>
TOTAL OTHER ASSETS	<u>92,193</u>	<u>100,552</u>
LAND, BUILDING AND EQUIPMENT - at cost, net of accumulated depreciation - Note 4		
	<u>2,848,332</u>	<u>3,049,475</u>
TOTAL ASSETS	<u>\$ 3,953,232</u>	<u>\$ 4,077,548</u>

See accompanying notes to financial statements.

	<u>2010</u>	<u>2009</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES (Payable from unrestricted assets)		
Accounts payable	\$ 114,701	\$ 95,387
Accrued expenses and other liabilities	275,726	385,569
Due to the U.S. Department of Justice - Note 9	-	135,000
Due to Wayne County, Tennessee - Note 5	1,504,995	1,292,658
Current portion of long-term debt - Note 6	<u>986,710</u>	<u>877,169</u>
TOTAL CURRENT LIABILITIES	<u>2,882,132</u>	<u>2,785,783</u>
CURRENT LIABILITIES (Payable from assets limited as to use)		
Patients' trust fund	<u>11,419</u>	<u>26,900</u>
LONG-TERM DEBT		
Notes and bonds payable - Note 6	3,105,724	3,200,804
Capital lease obligations - Note 6	<u>-</u>	<u>1,744</u>
	3,105,724	3,202,548
Less current portion	<u>986,710</u>	<u>877,169</u>
TOTAL LONG-TERM DEBT	<u>2,119,014</u>	<u>2,325,379</u>
TOTAL LIABILITIES	<u>5,012,565</u>	<u>5,138,062</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	190,334	303,047
Unrestricted (deficit)	<u>(1,249,667)</u>	<u>(1,363,561)</u>
TOTAL NET ASSETS (DEFICIT)	<u>(1,059,333)</u>	<u>(1,060,514)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,953,232</u>	<u>\$ 4,077,548</u>

WAYNE COUNTY RETIREMENT FACILITIES

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Net resident service revenue, net of provision for bad debts of \$50,000 and \$12,698, respectively	\$ 5,287,072	\$ 5,769,704
Other operating revenues	<u>6,041</u>	<u>6,455</u>
TOTAL OPERATING REVENUES	<u>5,293,113</u>	<u>5,776,159</u>
OPERATING EXPENSES		
Salaries and benefits	3,493,954	3,492,680
Supplies and other	1,270,469	1,432,203
Utilities	156,303	184,230
Depreciation	<u>249,143</u>	<u>279,788</u>
TOTAL OPERATING EXPENSES	<u>5,169,869</u>	<u>5,388,901</u>
INCOME FROM OPERATIONS	<u>123,244</u>	<u>387,258</u>
NONOPERATING REVENUE (EXPENSE)		
Interest income	6,057	6,921
Interest expense	<u>(128,120)</u>	<u>(144,612)</u>
TOTAL NONOPERATING REVENUE (EXPENSE) - NET	<u>(122,063)</u>	<u>(137,691)</u>
CHANGE IN NET ASSETS	1,181	249,567
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>(1,060,514)</u>	<u>(1,310,081)</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ (1,059,333)</u>	<u>\$ (1,060,514)</u>

See accompanying notes to financial statements.

WAYNE COUNTY RETIREMENT FACILITIES

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from residents	\$ 5,130,470	\$ 5,450,845
Payments to suppliers	(1,462,720)	(1,867,709)
Payments to employees	(3,523,571)	(3,444,266)
Other receipts	<u>6,041</u>	<u>6,455</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>150,220</u>	<u>145,325</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Debt principal payments	(80)	(134,188)
Interest paid	<u>(15,631)</u>	<u>(12,511)</u>
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	<u>(15,711)</u>	<u>(146,699)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Debt principal payments	(1,744)	(1,520)
Interest paid	(152,084)	(52,109)
Acquisition of capital assets	<u>-</u>	<u>(8,723)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(153,828)</u>	<u>(62,352)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on notes receivable	1,721	1,654
Interest income	<u>6,057</u>	<u>6,921</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>7,778</u>	<u>8,575</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(11,541)	(55,151)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>473,927</u>	<u>529,078</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 462,386</u>	<u>\$ 473,927</u>

See accompanying notes to financial statements.

WAYNE COUNTY RETIREMENT FACILITIES

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income (loss) from operations	\$ 123,244	\$ 387,258
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:		
Depreciation	249,143	279,788
Provision for bad debts	50,000	12,698
(Increase) decrease in:		
Accounts receivable and other receivables	(131,369)	(414,414)
Prepaid expenses	(11,222)	25,049
Inventories	(4,066)	(1,725)
Increase (decrease) in:		
Accounts payable	19,314	12,995
Accrued expenses and other liabilities	5,657	101,567
Due to State of Tennessee	-	(227,414)
Due to U.S. Department of Justice	(135,000)	(45,000)
Patients' trust fund	(15,481)	14,523
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 150,220</u>	<u>\$ 145,325</u>
SCHEDULE OF NONCASH TRANSACTIONS:		
Amortization of bond issue costs included in interest expense	\$ 6,568	\$ 6,569
Long-term debt and interest payments by Wayne County	164,337	168,423
Purchase of real estate with an advance from Wayne County	48,000	-

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Wayne County Retirement Facilities (the "Facilities") are not-for-profit residential health care providers operating as a component unit of Wayne County, Tennessee (the "County"). The Facilities, under the authority of the County Commission, are comprised of two divisions, the Wayne County Nursing Home ("WCNH") and the Wayne County Assisted Living Facility ("WCAL"). Under accounting principles generally accepted in the United States of America, the Facilities constitute component units of the County for financial reporting purposes.

Basis of accounting

The Facilities follow the accrual method of accounting whereby revenues are recognized in the period earned and expenditures are recorded at the time liabilities are incurred.

The Facilities apply all applicable Governmental Accounting Standards Board ("GASB") pronouncements in accounting and reporting as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures. The Facilities do not apply FASB Statements or Interpretations issued after November 30, 1989.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Management believes that such estimates have been based on reasonable assumptions and are adequate; however, actual results could differ from these estimates.

Cash equivalents and investments

Certificates of deposit with original maturities of three months or less when acquired are considered to be cash equivalents. All certificates of deposit are reported at cost.

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash equivalents and investments (continued)

Statutes authorize the Facilities to invest in: (1) U.S. government securities and obligations guaranteed by the U. S. government; (2) deposit accounts at state and federal chartered banks and savings and loan associations; (3) the Local Government Investment Pool of the State of Tennessee; and (4) obligations of the United States or its agencies under repurchase agreements with certain restrictions. The Facilities held no investments at June 30, 2010 or 2009.

Deposits with 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 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool.

Resident accounts receivable

The Facilities' primary credit risk is resident accounts receivable, which consist of amounts owed by governmental agencies and private pay patients. The Facilities grant credit to residents and generally do not require collateral or other security in extending credit; however, the Facilities routinely obtain assignment of (or are otherwise entitled to receive) residents' benefits payable primarily under the Medicaid Program. The percentage of resident service revenue attributable to this program was approximately 73% for 2010 (73% for 2009).

The Facilities manage receivables by regularly reviewing their accounts and contracts and by providing appropriate allowances for estimated uncollectible amounts. Provision for bad debts is netted against resident service revenue. Accounts identified as uncollectible are charged off against the allowance in the period determined.

Inventories

Inventories consist primarily of medical and dietary supplies and are carried at the lower of cost, determined on the first-in, first-out method, or market.

Interfund and intrafund accounts

During the course of operations, transactions occur between and among individual funds of the County or within a single fund for goods or services rendered. Interfund receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet and are eliminated in the government-wide financial statements of the County. Intrafund receivables and payables are eliminated on the balance sheet.

WAYNE COUNTY RETIREMENT FACILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets limited as to use

Assets limited as to use consist of restricted cash held in resident trust accounts.

Bond issue costs

Bond issue costs are capitalized and amortized on the straight-line method over the life of the related obligation. Amortization expense amounted to \$6,568 in 2010 (\$6,569 in 2009) and is included in interest expense.

Land, building and equipment

Land, building and equipment are recorded at cost. Depreciable assets are depreciated using the straight-line method over estimated useful lives of 6 to 40 years for building and improvements, and 3 to 10 years for major moveable equipment, fixtures, and automobiles.

Accrual for compensated absences

The Facilities' full-time employees earn vacation days as follows:

Less than 10 years service	12 days per year
10 - 20 years service	18 days per year
Over 20 years service	24 days per year

The Facilities' part-time employees working 20 or more hours per week earn one vacation day for every 22 days worked. If an employee is dismissed for cause or fails to give proper notice prior to leaving, the employee is not paid for the accumulated vacation days. The accumulation of vacation days is limited to one year's vacation allowance, except by permission of the Administrator. Vacation expense is accrued and included in accrued expenses and other liabilities as earned. Sick pay is expensed when paid or payable since it does not vest.

Net resident service revenue

Net resident service revenue is reported as services are rendered at estimated net realizable amounts from residents, third-party payors, and others for services rendered. The provision for bad debts is netted against net resident revenue.

The Facilities currently participate in the Medicaid Intermediate Care Program (the "Medicaid Program"). The Medicaid Program reimburses the Facilities for the cost of intermediate care services rendered to Medicaid beneficiaries at a prospective rate which is based on the lower 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 amount.

WAYNE COUNTY RETIREMENT FACILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events occurring after reporting date

The Facilities have evaluated events and transactions that occurred between June 30, 2010 and December 22, 2010, the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 2 - CASH AND CASH EQUIVALENTS

At June 30, 2010, the Facilities' cash and cash equivalents amounted to \$462,386. Bank balances for such amounts totaled \$493,197, of which \$283,925 was insured by the Federal Deposit Corporation (FDIC). The remaining balance was secured by collateral held by the Facilities' Agent in the Facilities' name.

NOTE 3 - NOTES RECEIVABLE

The Facilities have the following notes receivable due from Wayne County Senior Citizens Center at June 30:

	2010	2009
Note receivable, due in monthly installments of principal and interest (at 4.0%) of \$150 through December 2022.	\$ 17,695	\$ 18,764
Note receivable, due in monthly installments of principal and interest (at 4.0%) of \$167 through January 2038.	33,483	34,135
	51,178	52,899
Less current portion	(1,791)	(1,721)
	\$ 49,387	\$ 51,178

WAYNE COUNTY RETIREMENT FACILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 4 - LAND, BUILDING AND EQUIPMENT

A summary of changes in land, building and equipment and related accumulated depreciation for the year ended June 30, 2010, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 111,900	\$ -	\$ -	\$ 111,900
Capital assets, being depreciated:				
Buildings and improvements	4,213,841	48,000	-	4,261,841
Furniture and equipment	1,890,603	-	-	1,890,603
Automobiles	28,873	-	-	28,873
	<u>6,133,317</u>	<u>48,000</u>	<u>-</u>	<u>6,181,317</u>
Less accumulated depreciation:				
Buildings and improvements	2,002,847	152,116	-	2,154,963
Furniture and equipment	1,164,605	96,444	-	1,261,049
Automobiles	28,290	583	-	28,873
	<u>3,195,742</u>	<u>249,143</u>	<u>-</u>	<u>3,444,885</u>
Total capital assets, being depreciated, net	<u>2,937,575</u>	<u>(201,143)</u>	<u>-</u>	<u>2,736,432</u>
Total capital assets, net	<u>\$ 3,049,475</u>	<u>\$ (201,143)</u>	<u>\$ -</u>	<u>\$ 2,848,332</u>

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 4 - LAND, BUILDING AND EQUIPMENT (CONTINUED)

A summary of changes in land, building and equipment and related accumulated depreciation for the year ended June 30, 2009, follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 111,900	\$ -	\$ -	\$ 111,900
Capital assets, being depreciated:				
Buildings and improvements	4,210,841	3,000	-	4,213,841
Furniture and equipment	1,884,880	5,723	-	1,890,603
Automobiles	28,873	-	-	28,873
	<u>6,124,594</u>	<u>8,723</u>	<u>-</u>	<u>6,133,317</u>
Less accumulated depreciation:				
Buildings and improvements	1,849,961	152,886	-	2,002,847
Furniture and equipment	1,038,703	125,902	-	1,164,605
Automobiles	27,290	1,000	-	28,290
	<u>2,915,954</u>	<u>279,788</u>	<u>-</u>	<u>3,195,742</u>
Total capital assets, being depreciated, net	<u>3,208,640</u>	<u>(271,065)</u>	<u>-</u>	<u>2,937,575</u>
Total capital assets, net	<u>\$ 3,320,540</u>	<u>\$ (271,065)</u>	<u>\$ -</u>	<u>\$ 3,049,475</u>

Depreciation expense amounted to \$249,143 in 2010 (\$279,788 in 2009).

NOTE 5 - INTERFUND PAYABLES

WCAL has an interfund payable to the County for \$1,504,995 as of June 30, 2010 (\$1,292,658 for 2009), all of which is due on demand. Of this amount, \$152,173 represents the excess of construction costs of the building over the amount financed by the bonds. The remainder of the payable resulted from advances for bond principal and interest payments the County made on behalf of WCAL.

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 6 - NOTES AND BONDS PAYABLE

Changes in long-term debt were as follows for the year ended June 30, 2010:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Notes and Bonds Payable					
Nursing Home Capital Outlay Notes Series 2005 - interest rate of 2.90%, maturing over a 6-year period, with the first payment made August 1, 2005, and the final payment due February 1, 2012.	\$ 525,804	\$ -	\$ -	\$ 525,804	\$ 431,790
Nursing Home General Obligation Notes Series 2006 - interest rate of 4.05%, maturing over a 25-year period, with the first payment made December 1, 2006, and the final payment due June 1, 2031.	610,000	-	-	610,000	50,000
Nursing Home General Obligation Notes Series 2007 - interest rate of 5.00%, entire balance was due on December 1, 2009 and is currently delinquent.	190,000	-	-	190,000	190,000
Nursing Home 6.00% demand note payable to a bank, if no demand then principal and interest due January 4, 2011.	85,000	-	-	85,000	85,000
Nursing Home demand note payable to a bank, originally due January 3, 2010 at an interest rate of 6.56%, renewed at an interest rate of 7.50%, if no demand then principal and interest due December 31, 2010.	130,000	-	80	129,920	129,920
Assisted Living Facility Lease Revenue and Tax Bonds Series 2001 - interest rate of 4.30%, maturing over a 20-year period, with the first payment made October 1, 2002, and the final payment due October 1, 2021.	<u>1,660,000</u>	<u>-</u>	<u>95,000</u>	<u>1,565,000</u>	<u>100,000</u>
Total notes and bonds payable	3,200,804	-	95,080	3,105,724	986,710
Capital lease obligations	<u>1,744</u>	<u>-</u>	<u>1,744</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 3,202,548</u>	<u>\$ -</u>	<u>\$ 96,824</u>	<u>\$ 3,105,724</u>	<u>\$ 986,710</u>

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 6 - NOTES AND BONDS PAYABLE (CONTINUED)

Changes in long-term debt were as follows for the year ended June 30, 2009:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Notes and Bonds Payable					
Nursing Home Capital Outlay Notes Series 2005 - interest rate of 2.90%, maturing over a 6-year period, with the first payment made August 1, 2005, and the final payment due February 1, 2012.	\$ 525,804	\$ -	\$ -	\$ 525,804	\$ 340,425
Nursing Home General Obligation Notes Series 2006 - interest rate of 4.05%, maturing over a 25-year period, with the first payment made December 1, 2006, and the final payment due June 1, 2031.	610,000	-	-	610,000	35,000
Nursing Home General Obligation Notes Series 2007 - interest rate of 5.00%, with entire balance due December 1, 2009.	200,000	-	10,000	190,000	190,000
Nursing Home 6.50% demand note payable to a bank, if no demand then principal and interest due January 4, 2010.	95,000	-	10,000	85,000	85,000
Nursing Home 6.56% demand note payable to a bank, if no demand then principal and interest due January 3, 2010.	140,000	-	10,000	130,000	130,000
Nursing Home General Obligation Notes Series 2007A - interest rate of 5.50%, with final payment made July 2009.	100,000	-	100,000	-	-
Assisted Living Facility Lease Revenue and Tax Bonds Series 2001 - interest rate of 4.30%, maturing over a 20-year period, with the first payment made October 1, 2002, and the final payment due October 1, 2021.	<u>1,755,000</u>	<u>-</u>	<u>95,000</u>	<u>1,660,000</u>	<u>95,000</u>
Total notes and bonds payable	3,425,804	-	225,000	3,200,804	875,425
Capital lease obligations	<u>7,452</u>	<u>-</u>	<u>5,708</u>	<u>1,744</u>	<u>1,744</u>
Total long-term debt	<u>\$ 3,433,256</u>	<u>\$ -</u>	<u>\$ 230,708</u>	<u>\$ 3,202,548</u>	<u>\$ 877,169</u>

WAYNE COUNTY RETIREMENT FACILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 6 - NOTES AND BONDS PAYABLE (CONTINUED)

A schedule of annual principal maturities of notes and bonds payable as of June 30, 2010, follows:

<u>Year ending June 30,</u>	<u>Bond Indebtedness</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 986,710	\$ 127,046
2012	214,014	84,711
2013	125,000	76,701
2014	130,000	71,202
2015	140,000	65,388
2016 - 2031	<u>1,510,000</u>	<u>328,723</u>
	<u>\$ 3,105,724</u>	<u>\$ 753,771</u>

NOTE 7 - PENSION PLAN

Plan Description

Employees of the Facilities are part of the Wayne County General Fund Court which participates in the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). 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 age 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 Wayne County General Fund Court 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. The Facilities' contribution to this plan was \$165,328 in 2010 (\$162,117 in 2009.)

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 the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or can be accessed at <http://treasury.state.tn.us/tcrs/PS/>.

WAYNE COUNTY RETIREMENT FACILITIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 7 - PENSION PLAN (CONTINUED)

Since the Facilities participate in Wayne County General Fund Court's plan, pension information for the Facilities is not available separately from the pension information provided for the County. Complete disclosure for the County's participation in the TCRS is described in the footnotes of the Annual Financial Report of Wayne County, Tennessee.

Funding Policy

Wayne County General Fund Court requires employees to contribute 5.00% of earnable compensation.

Wayne County General Fund Court is required to contribute at an actuarially determined rate; the rate was 6.88% for the fiscal years ended June 30, 2010 and 2009. The contribution requirement of plan members is set by state statute. The contribution requirement for Wayne County General Fund Court is established and may be amended by the TCRS Board of Trustees.

NOTE 8 - CONTINGENT LIABILITIES

The Facilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Facilities have elected to obtain various insurance policies to transfer risk to a commercial insurance company. Insurance settlements have not been in excess of insurance coverage in any of the prior three years.

The Facilities are also subject to claims and suits arising in the ordinary course of business, including workers' compensation claims and claims arising from services provided to residents in the past. In management's opinion, the Facilities are currently not a party to any proceeding, the ultimate resolution of which would have a material adverse effect on the Facilities' change in net assets or financial condition. Accordingly, no liability for any such loss has been provided.

NOTE 9 - PAYABLE TO THE U.S. DEPARTMENT OF JUSTICE

During March 2009, WCNH reached an agreement with the State and the U.S. Department of Justice related to the 2003 and 2004 Cost Reports. The agreement provided for a \$180,000 settlement, payable by WCNH in eight equal monthly payments of \$22,500 with interest accruing at 4%. WCNH's outstanding obligation to the U.S. Department of Justice as of June 30, 2009 was \$135,000. The outstanding balance of the settlement and accrued interest were paid in full in 2010.

WAYNE COUNTY RETIREMENT FACILITIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2010 AND 2009

NOTE 10 - DEFICIT NET ASSETS

The Facilities have a deficit unrestricted net assets of \$1,249,667 at June 30, 2010 (\$1,363,561 in 2009) and a total deficit net assets of \$1,059,333 at June 30, 2010 (\$1,060,514 in 2009).

NOTE 11 - SUBSEQUENT EVENT

As of July 1, 2010, the Wayne County Hospital Board of Trustees assumed responsibility for the operation of another nursing home facility in Wayne County. The additional facility will provide residential health care for up to 46 patients. It will be operated as a division of the Wayne County Retirement Facilities.

ADDITIONAL INFORMATION

WAYNE COUNTY RETIREMENT FACILITIES

COMBINING SCHEDULES OF NET ASSETS (DEFICIT)

JUNE 30, 2010 AND 2009

ASSETS	JUNE 30, 2010			JUNE 30, 2009				
	WCNH	WCAL	ELIMINATIONS	TOTAL	WCNH	WCAL	ELIMINATIONS	TOTAL
CURRENT ASSETS								
Cash and cash equivalents - unrestricted	\$ 433,093	\$ 17,874	\$ -	\$ 450,967	\$ 416,228	\$ 30,799	\$ -	\$ 447,027
Resident accounts receivable, net of allowance for uncollectible accounts	491,345	1,706	-	493,051	351,930	-	-	351,930
Intrafund receivable	151,524	-	(151,524)	-	158,897	-	(158,897)	-
Due from State of Tennessee	8,582	-	-	8,582	68,334	-	-	68,334
Notes receivable - current portion	1,791	-	-	1,791	1,721	-	-	1,721
Prepaid insurance	21,379	-	-	21,379	10,157	-	-	10,157
Inventories	25,518	-	-	25,518	21,452	-	-	21,452
TOTAL CURRENT ASSETS	1,133,232	19,580	(151,524)	1,001,288	1,028,719	30,799	(158,897)	900,621
ASSETS LIMITED AS TO USE								
Cash and cash equivalents - restricted	11,419	-	-	11,419	26,900	-	-	26,900
TOTAL ASSETS LIMITED AS TO USE	11,419	-	-	11,419	26,900	-	-	26,900
OTHER ASSETS								
Bond issue costs, net of accumulated amortization	9,311	33,495	-	42,806	13,088	36,286	-	49,374
Notes receivable, excluding current portion	49,387	-	-	49,387	51,178	-	-	51,178
TOTAL OTHER ASSETS	58,698	33,495	-	92,193	64,266	36,286	-	100,552
LAND, BUILDING AND EQUIPMENT - at cost, net of accumulated depreciation	1,105,690	1,742,642	-	2,848,332	1,250,332	1,799,143	-	3,049,475
TOTAL ASSETS	\$ 2,309,039	\$ 1,795,717	\$ (151,524)	\$ 3,953,232	\$ 2,370,217	\$ 1,866,228	\$ (158,897)	\$ 4,077,548

WAYNE COUNTY RETIREMENT FACILITIES

COMBINING SCHEDULES OF NET ASSETS (DEFICIT) (CONTINUED)

JUNE 30, 2010 AND 2009

	JUNE 30, 2010			JUNE 30, 2009				
	WCNH	WCAL	ELIMINATIONS	TOTAL	WCNH	WCAL	ELIMINATIONS	TOTAL
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES (Payable from unrestricted assets)								
Accounts payable	\$ 84,189	\$ 30,512	\$ -	\$ 114,701	\$ 84,354	\$ 11,033	\$ -	\$ 95,387
Accrued expenses and other liabilities	250,198	25,528	-	275,726	349,229	36,340	-	385,569
Due to the U.S. Department of Justice	-	-	-	-	135,000	-	-	135,000
Intrafund payable	-	151,524	(151,524)	-	-	158,897	(158,897)	-
Due to Wayne County, Tennessee	48,000	1,456,995	-	1,504,995	-	1,292,658	-	1,292,658
Current portion of long-term debt	886,710	100,000	-	986,710	780,425	96,744	-	877,169
TOTAL CURRENT LIABILITIES	1,269,097	1,764,559	(151,524)	2,882,132	1,349,008	1,595,672	(158,897)	2,785,783
CURRENT LIABILITIES (Payable from assets limited as to use)								
Patients' trust fund	11,419	-	-	11,419	26,900	-	-	26,900
LONG-TERM DEBT								
Notes and bonds payable	1,540,724	1,565,000	-	3,105,724	1,540,804	1,660,000	-	3,200,804
Capital lease obligation	-	-	-	-	-	1,744	-	1,744
	1,540,724	1,565,000	-	3,105,724	1,540,804	1,661,744	-	3,202,548
Less current portion	886,710	100,000	-	986,710	780,425	96,744	-	877,169
TOTAL LONG-TERM DEBT	654,014	1,465,000	-	2,119,014	760,379	1,565,000	-	2,325,379
TOTAL LIABILITIES	1,934,530	3,229,559	(151,524)	5,012,565	2,136,287	3,160,672	(158,897)	5,138,062
NET ASSETS (DEFICIT)								
Invested in capital assets, net of related debt	(20,803)	211,137	-	190,334	127,618	175,429	-	303,047
Unrestricted (deficit)	395,312	(1,644,979)	-	(1,249,667)	106,312	(1,469,873)	-	(1,363,561)
TOTAL NET ASSETS (DEFICIT)	374,509	(1,433,842)	-	(1,059,333)	233,930	(1,294,444)	-	(1,060,514)
TOTAL LIABILITIES AND NET ASSETS	\$ 2,309,039	\$ 1,795,717	\$ (151,524)	\$ 3,953,232	\$ 2,370,217	\$ 1,866,228	\$ (158,897)	\$ 4,077,548

WAYNE COUNTY RETIREMENT FACILITIES

COMBINING SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)

YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009				
	WCNH	WCAL	ELIMINATIONS	TOTAL	WCNH	WCAL	ELIMINATIONS	TOTAL
OPERATING REVENUES								
Net resident service revenue, net of provision for bad debts	\$ 4,956,958	\$ 330,114	-	\$ 5,287,072	\$ 5,427,421	\$ 342,283	-	\$ 5,769,704
Other operating revenues	6,041	-	-	6,041	6,455	-	-	6,455
TOTAL OPERATING REVENUES	<u>4,962,999</u>	<u>330,114</u>	<u>-</u>	<u>5,293,113</u>	<u>5,433,876</u>	<u>342,283</u>	<u>-</u>	<u>5,776,159</u>
OPERATING EXPENSES								
Salaries and benefits	3,293,132	200,822	-	3,493,954	3,296,688	195,992	-	3,492,680
Supplies and other	1,174,614	95,855	-	1,270,469	1,312,962	119,241	-	1,432,203
Utilities	114,448	41,855	-	156,303	134,704	49,526	-	184,230
Depreciation	192,642	56,501	-	249,143	198,723	81,065	-	279,788
TOTAL OPERATING EXPENSES	<u>4,774,836</u>	<u>395,033</u>	<u>-</u>	<u>5,169,869</u>	<u>4,943,077</u>	<u>445,824</u>	<u>-</u>	<u>5,388,901</u>
INCOME (LOSS) FROM OPERATIONS	<u>188,163</u>	<u>(64,919)</u>	<u>-</u>	<u>123,244</u>	<u>490,799</u>	<u>(103,541)</u>	<u>-</u>	<u>387,258</u>
NONOPERATING REVENUE (EXPENSE)								
Interest income	9,429	205	(3,577)	6,057	10,165	333	(3,577)	6,921
Interest expense	(57,013)	(74,684)	3,577	(128,120)	(69,440)	(78,749)	3,577	(144,612)
TOTAL NONOPERATING REVENUE (EXPENSE) - NET	<u>(47,584)</u>	<u>(74,479)</u>	<u>-</u>	<u>(122,063)</u>	<u>(59,275)</u>	<u>(78,416)</u>	<u>-</u>	<u>(137,691)</u>
CHANGE IN NET ASSETS	140,579	(139,398)	-	1,181	431,524	(181,957)	-	249,567
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	<u>233,930</u>	<u>(1,294,444)</u>	<u>-</u>	<u>(1,060,514)</u>	<u>(197,594)</u>	<u>(1,112,487)</u>	<u>-</u>	<u>(1,310,081)</u>
NET ASSETS (DEFICIT) - END OF YEAR	<u>\$ 374,509</u>	<u>\$ (1,433,842)</u>	<u>\$ -</u>	<u>\$ (1,059,333)</u>	<u>\$ 233,930</u>	<u>\$ (1,294,444)</u>	<u>\$ -</u>	<u>\$ (1,060,514)</u>

WAYNE COUNTY RETIREMENT FACILITIES

COMBINING SCHEDULES OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009				
	WCNH	WCAL	ELIMINATIONS	TOTAL	WCNH	WCAL	ELIMINATIONS	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from residents	\$ 4,802,062	\$ 328,408	\$ -	\$ 5,130,470	\$ 5,108,562	\$ 342,283	\$ -	\$ 5,450,845
Payments to suppliers	(1,336,095)	(126,625)	-	(1,462,720)	(1,702,069)	(165,640)	-	(1,867,709)
Payments to employees	(3,312,958)	(210,613)	-	(3,523,571)	(3,252,227)	(192,039)	-	(3,444,266)
Other receipts	6,041	-	-	6,041	6,455	-	-	6,455
NET CASH PROVIDED BY OPERATING ACTIVITIES	159,050	(8,830)	-	150,220	160,721	(15,396)	-	145,325
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Debt principal payments	(80)	-	-	(80)	(134,188)	-	-	(134,188)
Interest paid	(15,631)	-	-	(15,631)	(12,511)	-	-	(12,511)
NET CASH USED IN NONCAPITAL FINANCING	(15,711)	-	-	(15,711)	(146,699)	-	-	(146,699)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING								
ACTIVITIES								
Debt principal payments	-	(1,744)	-	(1,744)	-	(1,520)	-	(1,520)
Interest paid	(153,105)	(2,556)	3,577	(152,084)	(53,152)	(2,534)	3,577	(52,109)
Acquisition of capital assets	-	-	-	-	(5,722)	(3,001)	-	(8,723)
NET CASH USED IN CAPITAL AND RELATED FINANCING	(153,105)	(4,300)	3,577	(153,828)	(58,874)	(7,055)	3,577	(62,352)
CASH FLOWS FROM INVESTING ACTIVITIES								
Payments received on notes receivable	1,721	-	-	1,721	1,654	-	-	1,654
Interest income	9,429	205	(3,577)	6,057	10,165	333	(3,577)	6,921
NET CASH PROVIDED BY INVESTING ACTIVITIES	11,150	205	(3,577)	7,778	11,819	333	(3,577)	8,575
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,384	(12,925)	-	(11,541)	(33,033)	(22,118)	-	(55,151)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	443,128	30,799	-	473,927	476,161	52,917	-	529,078
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 444,512	\$ 17,874	\$ -	\$ 462,386	\$ 443,128	\$ 30,799	\$ -	\$ 473,927

WAYNE COUNTY RETIREMENT FACILITIES

COMBINING SCHEDULES OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

	2010			2009				
	WCNH	WCAL	ELIMINATIONS	TOTAL	WCNH	WCAL	ELIMINATIONS	TOTAL
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES								
Income (loss) from operations	\$ 188,163	\$ (64,919)	\$ -	\$ 123,244	\$ 490,799	\$ (103,541)	\$ -	\$ 387,258
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:								
Depreciation	192,642	56,501	-	249,143	198,723	81,065	-	279,788
Provision for bad debts	50,000	-	-	50,000	12,698	-	-	12,698
(Increase) decrease in:								
Accounts receivable and other receivables	(129,663)	(1,706)	-	(131,369)	(414,414)	-	-	(414,414)
Intrafund receivable (payable)	7,373	(7,373)	-	-	(1,493)	1,493	-	-
Prepaid expenses	(11,222)	-	-	(11,222)	25,049	-	-	25,049
Inventories	(4,066)	-	-	(4,066)	(1,725)	-	-	(1,725)
Increase (decrease) in:								
Accounts payable	(165)	19,479	-	19,314	11,361	1,634	-	12,995
Accrued expenses and other liabilities	16,469	(10,812)	-	5,657	97,614	3,953	-	101,567
Due to State of Tennessee	-	-	-	-	(227,414)	-	-	(227,414)
Due to U.S. Department of Justice	(135,000)	-	-	(135,000)	(45,000)	-	-	(45,000)
Patients' trust fund	(15,481)	-	-	(15,481)	14,523	-	-	14,523
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 159,050	\$ (8,830)	\$ -	\$ 150,220	\$ 160,721	\$ (15,396)	\$ -	\$ 145,325

SCHEDULE OF NONCASH TRANSACTIONS:

Amortization of bond issue costs included in interest expense	\$ 3,777	\$ 2,791	\$ -	\$ 6,568	\$ 3,777	\$ 2,792	\$ -	\$ 6,569
Long term debt and interest payments by Wayne County	-	164,337	-	164,337	-	168,423	-	168,423
Purchase of real estate with an advance from Wayne County	48,000	-	-	48,000	-	-	-	-

OTHER REPORT



REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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

Wayne County General Hospital Board of Trustees
Wayne County Retirement Facilities
Waynesboro, Tennessee

We have audited the financial statements of Wayne County Retirement Facilities (the "Facilities"), a component unit of Wayne County, Tennessee, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 22, 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 the Facilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Facilities' 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 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.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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 (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Facilities' 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*.

We noted certain other matters that we reported to management of Wayne County Retirement Facilities in a separate letter dated December 22, 2010.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Knaf+CPAs PLLC

Columbia, Tennessee
December 22, 2010