

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

Pikeville, Tennessee

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2012 and 2011

JOHNSON, HICKEY & MURCHISON, P.C.
Certified Public Accountants
Chattanooga, Tennessee

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INDEPENDENT AUDITORS' 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, 2012 and 2011, 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 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 opinions.

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, 2012 and 2011, and the changes in financial position and cash flows thereof for the years 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 our report dated November 1, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental

Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements 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). The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Johnson, Niskey & Meacham, P.C.

Chattanooga, Tennessee
November 1, 2012

**Bledsoe County Nursing Home
Management's Discussion and Analysis
For the Year Ended June 30, 2012**

This discussion and analysis is intended to serve as an introduction to the June 30, 2012 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.

OVERVIEW OF 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 BCNH's assets and liabilities as of June 30, 2012. The statement also presents the balance of assets in excess of liabilities, or net assets.

The statements of cash flows supplement those statements providing relevant information about cash receipts and payments by the BCNH.

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, 2012.

FINANCIAL ANALYSIS

Financial Position -

Total assets, total liabilities and total net assets at June 30, 2012, 2011 and 2010 are as follows:

	<u>2012</u>	<u>2011</u>	<u>Percent Change</u>	<u>2011</u>	<u>2010</u>	<u>Percent Change</u>
Current assets	\$ 606,957	\$ 767,036	(21%)	\$ 767,036	\$ 654,918	17%
Property & equipment, net	476,034	545,073	(13%)	545,073	583,098	(7%)
Assets limited as to use:						
Resident trust fund	<u>14,799</u>	<u>17,616</u>	(16%)	<u>17,616</u>	<u>23,715</u>	(26%)
Total assets	<u>\$ 1,097,790</u>	<u>\$ 1,329,735</u>	(17%)	<u>\$ 1,329,735</u>	<u>1,261,731</u>	5%

Current liabilities	\$ 188,444	\$ 205,283	(8%)	\$ 205,283	\$ 186,743	10%
Other liabilities:						
Resident trust fund	<u>14,799</u>	<u>17,616</u>	(16%)	<u>17,616</u>	<u>23,715</u>	(26%)
Total liabilities	<u>203,243</u>	<u>222,899</u>	(9%)	<u>222,899</u>	<u>210,458</u>	6%
Net assets						
Invested in capital assets, net of related debt	476,034	545,073	(13%)	545,073	583,098	(7%)
Unrestricted	<u>418,513</u>	<u>561,753</u>	(25%)	<u>561,753</u>	<u>468,175</u>	20%
Total net assets	<u>894,547</u>	<u>1,106,826</u>	(19%)	<u>1,106,826</u>	<u>1,051,273</u>	5%
Total liabilities and net assets	<u>\$ 1,097,790</u>	<u>\$ 1,329,735</u>	(17%)	<u>\$ 1,329,735</u>	<u>\$ 1,261,731</u>	5%

Operations -

Components of BCNH's operating revenues, operating expenses and nonoperating income for the years ended June 30, 2012, 2011, and 2010 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenue:			
Net patient service revenue	\$ 2,590,626	\$ 2,808,349	\$ 2,504,805
Rental income	12,000	12,000	12,000
Other revenue	<u>68</u>	<u>106</u>	<u>130</u>
Total operating revenues	<u>\$ 2,602,694</u>	<u>\$ 2,820,455</u>	<u>\$ 2,516,935</u>
Operating Expenses:			
Salaries and benefits	1,641,563	1,578,706	1,388,425
Medical supplies and drugs	79,634	96,408	75,449
Insurance	88,589	95,577	124,597
Other supplies	91,802	92,735	75,661
Depreciation	69,039	66,620	59,552
Other expenses	<u>891,375</u>	<u>881,469</u>	<u>791,693</u>
Total operating expenses	<u>2,862,002</u>	<u>2,811,515</u>	<u>2,515,377</u>
Operating income (loss)	<u>(259,308)</u>	<u>8,940</u>	<u>1,558</u>
Nonoperating Income:			
Contributions	-	16,405	-
Interest income	<u>2,029</u>	<u>1,612</u>	<u>2,937</u>
Total nonoperating income	<u>2,029</u>	<u>18,017</u>	<u>2,937</u>

Income (loss) before contributions	<u>(257,279)</u>	<u>26,957</u>	<u>4,495</u>
Capital grants and contributions:			
Capital grant	-	-	57,059
Capital contributions	<u>45,000</u>	<u>28,595</u>	<u>165,000</u>
Total capital grants and contributions	<u>45,000</u>	<u>28,595</u>	<u>222,059</u>
Increase (decrease) in unrestricted net assets	(212,279)	55,552	226,554
Net assets, beginning of year	<u>1,106,826</u>	<u>1,051,274</u>	<u>824,720</u>
Net assets, end of year	<u>\$ 894,547</u>	<u>\$ 1,106,826</u>	<u>\$ 1,051,274</u>

In fiscal year ended 2012, we experienced a \$217,723 decrease in patient service revenue. In fiscal year ended 2011, we experienced a \$303,544 increase in patient service revenue.

Nonoperating Income -

Nonoperating income consists of interest earned on BCNH’s cash accounts and operating contribution from the County.

Nursing Home Cash Flow -

Changes in the BCNH’s cash flows are consistent with the results of operating and nonoperating income, as discussed earlier.

Capital Asset and Debt Administration -

As of June 30, 2012 and 2011, BCNH had \$476,034 and \$545,073, respectively, invested in capital assets, net of accumulated depreciation as detailed in Note 5 to the financial statements.

BCNH had no debt at June 30, 2012 and 2011.

Other Economic Factors -

BCNH received a contribution from the Bledsoe County Commission in the amount of \$45,000 in 2012 and 2011. In 2011, proceeds of \$28,595 were used for physical space renovations and \$16,405 for operations. In 2012, all proceeds were used for operations. All proceeds were used in the year received.

Contacting BCNH’s Financial Management -

This financial report is designed to provide our patients, suppliers, creditors, and other stakeholders with a general overview of BCNH’s finances and to show BCNH’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, 2012 AND 2011

ASSETS

	2012	2011
CURRENT ASSETS:		
Cash	\$ 214,103	\$ 231,675
Certificates of deposit	158,000	158,000
Patient accounts receivable, net of allowance for doubtful accounts of \$83,000 in 2012 and \$20,000 in 2011	222,999	369,383
Prepaid expenses	11,855	7,978
Total current assets	606,957	767,036
ASSETS LIMITED AS TO USE:		
Resident trust fund	14,799	17,616
NET CAPITAL ASSETS	476,034	545,073
Total assets	\$ 1,097,790	\$ 1,329,725

(The accompanying notes are an integral part of these statements.)

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 71,107	\$ 96,262
Salaries and wages	60,337	72,179
Accrued compensated absences	46,950	27,042
Other	<u>10,050</u>	<u>9,800</u>
Total current liabilities	<u>188,444</u>	<u>205,283</u>
OTHER LIABILITIES:		
Resident trust fund liability	<u>14,799</u>	<u>17,616</u>
Total liabilities	<u>203,243</u>	<u>222,899</u>
NET ASSETS:		
Invested in capital assets	476,034	545,073
Unrestricted	<u>418,513</u>	<u>561,753</u>
Total net assets	<u>894,547</u>	<u>1,106,826</u>
Total liabilities and net assets	<u>\$ 1,097,790</u>	<u>\$ 1,329,725</u>

(The accompanying notes are an integral part of these statements.)

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
REVENUES:		
Net patient service revenue	\$ 2,590,626	\$ 2,808,349
Rental income	12,000	12,000
Other revenue	<u>68</u>	<u>106</u>
Total revenues	<u>2,602,694</u>	<u>2,820,455</u>
EXPENSES:		
Salaries and benefits	1,641,563	1,578,706
Medical supplies and drugs	79,634	96,408
Insurance	88,589	95,577
Other supplies	91,802	92,735
Depreciation	69,039	66,620
Other expenses	<u>891,375</u>	<u>881,469</u>
Total expenses	<u>2,862,002</u>	<u>2,811,515</u>
OPERATING INCOME (LOSS)	<u>(259,308)</u>	<u>8,940</u>
NONOPERATING REVENUE:		
Contributions	-	16,405
Interest income	<u>2,029</u>	<u>1,612</u>
Total nonoperating revenue	<u>2,029</u>	<u>18,017</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	<u>(257,279)</u>	<u>26,957</u>
CAPITAL GRANTS AND CONTRIBUTIONS:		
Capital contribution	<u>45,000</u>	<u>28,595</u>
Total capital grants and contributions	<u>45,000</u>	<u>28,595</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(212,279)	55,552
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>1,106,826</u>	<u>1,051,274</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 894,547</u>	<u>\$ 1,106,826</u>

(The accompanying notes are an integral part of these statements.)

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 2,737,010	\$ 2,645,666
Cash payments to suppliers for goods and services	(1,205,933)	(1,141,266)
Cash payments to employees for services	(1,607,746)	(1,566,578)
Other revenue	68	106
Proceeds from rental facility	12,000	12,000
Net cash used by operating activities	(64,601)	(50,072)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital contributions	-	16,405
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	-	(28,595)
Capital contribution	45,000	28,595
Net cash provided by capital and related financing activities	45,000	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	2,029	1,612
NET DECREASE IN CASH:	(17,572)	(32,055)
Beginning	231,675	263,730
Ending	\$ 214,103	\$ 231,675

(The accompanying notes are an integral part of these statements.)

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO		
NET CASH USED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (259,308)	\$ 8,940
Adjustments to reconcile operating income to net cash used by operating activities -		
Depreciation	69,039	66,620
Provision for bad debts	72,010	-
Net (increase) decrease in operating assets -		
Patient accounts receivable	74,374	(162,684)
Prepaid expenses	(3,877)	18,511
Net increase (decrease) in operating liabilities -		
Accounts payable	(25,155)	6,013
Accrued liabilities	<u>8,316</u>	<u>12,528</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (64,601)</u>	<u>\$ (50,072)</u>

(The accompanying notes are an integral part of these statements.)

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(1) 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 purpose 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, and state or local bonds, rated A or higher by a nationally recognized rating service. There were no cash equivalents at June 30, 2012 and 2011, respectively.

Patient receivables –

For patient receivables, the allowance for doubtful accounts is based on management's assessment of the collectability 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.

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

**BLEDSOE COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSOE COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Accounting standards (continued) –

relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989. If the FASB pronouncements conflict or contradict GASB pronouncement, GASB prevails.

Assets limited as to use –

Assets limited as to use consist of patients’ personal assets held by the Nursing Home for the personal use of those patients (see Note 4).

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 the 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 97% and 95% of the Nursing Home’s net patient service revenue for the years ended June 30, 2012 and 2011, respectively.

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
JUNE 30, 2012 AND 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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; 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.

(2) 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 eleven 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 \$137,500 and \$130,000 in 2012 and 2011, respectively.

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(3) DEPOSITS AND CERTIFICATES OF DEPOSIT:

The carrying amounts of the Nursing Home's deposits with commercial banks are \$386,852 and \$407,291 and the bank balances are \$416,524 and \$413,940 at June 30, 2012 and 2011, respectively.

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, 2012, \$312,708 was covered by federal depository insurance and \$103,816 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, 2012 was 0.75%.

(4) 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:

	2012	2011
Resident trust fund	\$ 14,799	\$ 17,616

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(5) CAPITAL ASSETS:

Capital assets consist of the following:

	Balance at June 30, 2011	Additions	Deletions	Balance at June 30, 2012
Capital assets being depreciated:				
Land improvements	\$ 48,696	\$ -	\$ -	\$ 48,696
Building	1,213,436	-	-	1,213,436
Fixed equipment	248,306	-	-	248,306
Major moveable equipment	42,698	-	-	42,698
Minor moveable equipment	<u>74,092</u>	<u>-</u>	<u>-</u>	<u>74,092</u>
Total capital assets being depreciated	<u>1,627,228</u>	<u>-</u>	<u>-</u>	<u>1,627,228</u>
Less accumulated depreciation for:				
Land improvements	40,685	377	-	41,062
Building	759,984	59,685	-	819,669
Fixed equipment	205,058	5,463	-	210,521
Major moveable equipment	42,698	-	-	42,698
Minor moveable equipment	<u>33,730</u>	<u>3,514</u>	<u>-</u>	<u>37,244</u>
Total accumulated depreciation	<u>1,082,155</u>	<u>69,039</u>	<u>-</u>	<u>1,151,194</u>
Capital assets, net	<u>\$ 545,073</u>	<u>\$ (69,039)</u>	<u>\$ -</u>	<u>\$ 476,034</u>

	Balance at June 30, 2010	Additions	Deletions	Balance at June 30, 2011
Capital assets being depreciated:				
Land improvements	48,696	-	-	48,696
Building	1,184,841	28,595	-	1,213,436
Fixed equipment	248,306	-	-	248,306
Major moveable equipment	42,698	-	-	42,698
Minor moveable equipment	<u>74,092</u>	<u>-</u>	<u>-</u>	<u>74,092</u>
Total capital assets being depreciated	<u>1,598,633</u>	<u>28,595</u>	<u>-</u>	<u>1,627,228</u>
Less accumulated depreciation for:				
Land improvements	40,308	377	-	40,685
Building	702,718	57,266	-	759,984
Fixed equipment	199,595	5,463	-	205,058
Major moveable equipment	42,698	-	-	42,698
Minor moveable equipment	<u>30,216</u>	<u>3,514</u>	<u>-</u>	<u>33,730</u>
Total accumulated depreciation	<u>1,015,535</u>	<u>66,620</u>	<u>-</u>	<u>1,082,155</u>
Capital assets, net	<u>\$ 583,098</u>	<u>\$ (38,025)</u>	<u>\$ -</u>	<u>\$ 545,073</u>

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(6) PURCHASED SERVICES:

The dietary arrangements between Bledson County Nursing Home and Erlanger Health System (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:

	2012	2011
Dietary purchased services	\$ 382,604	\$ 397,713

The total amount of unpaid expense due to the Hospital amounted to \$69,033 and \$88,976 at June 30, 2012 and 2011, respectively.

(7) COMPENSATED ABSENCES:

Nursing Home employees are paid for personal annual leave (PAL) time by a prescribed formula based on length of service. Upon termination, employees of the Nursing Home are compensated for any PAL time earned but not taken. Compensated absence liabilities of \$46,950 and \$27,042 are reported at June 30, 2012 and 2011, respectively.

(8) 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:

	2012	2011
Medicaid	89%	91%
Patients	11%	9%
	100%	100%

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(9) 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.

There are no future minimum lease payments under operating leases as of June 30, 2012 and 2011, that have initial or remaining lease terms in excess of one year.

Total rental expense in 2012 and 2011 for all operating leases was \$3,756 and \$20,844, 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.

(10) NET WORKING CAPITAL:

Net working capital at June 30, 2012 and 2011, was \$418,513 and \$561,753, respectively.

(11) CONTRIBUTION INCOME:

In 2012, the Nursing Home received a contribution from the Bledsoe County Commission in the amount of \$45,000 to be used as needed during the course of operations. At June 30, 2012, all proceeds had been used.

In 2011, the Nursing Home received a capital contribution from the Bledsoe County Commission in the amount of \$45,000. Proceeds of \$28,595 were used for physical space renovations and \$16,405 for operations. At June 30, 2011, all proceeds had been used.

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

(12) EMPLOYEE BENEFIT PLAN:

Effective July 6, 2010, Bledson County Nursing Home, joined the Tennessee Consolidated Retirement System (TCRS), a multiple-employer Public Employee Retirement System (PERS). All full-time personnel employed at or after October 1, 2010, are required to participate in the Tennessee Consolidated Retirement System Pension Plan. The Nursing Home contributes the employer's share of pension contributions based on a set percent of payroll determined by actuarial valuation. The rate is subject to change every two years in order to keep the system actuarially sound. The employees are required to contribute 5% of their salaries to the plan. Contributions by the Nursing Home totaled \$80,922 and \$57,309 for 2012 and 2011, respectively. Information in regard to funding status, contribution requirements, and trends appear in the financial statements of Bledson County and cannot be separately identified for the Nursing Home.

(13) 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, November 1, 2012.

SUPPLEMENTARY INFORMATION

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE 1 - NET PATIENT SERVICE REVENUE
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
PATIENT SERVICE REVENUE:		
Routine	\$ 2,684,888	\$ 2,821,221
Central service and supply	32,936	37,888
Pharmacy	38,497	39,045
Total patient service revenue	2,756,321	2,898,154
REVENUE DEDUCTIONS:		
Medicaid contractual adjustments	93,685	89,805
Provisions for bad debts	72,010	-
Total revenue deductions	165,695	89,805
Net patient service revenue	\$ 2,590,626	\$ 2,808,349

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE 2 - SALARIES AND BENEFITS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
NURSING SERVICES:		
Routine	\$ 962,800	\$ 907,807
OTHER PROFESSIONAL SERVICES:		
Pharmacy	4,493	1,920
GENERAL SERVICES:		
Housekeeping	125,354	140,973
Plant operation	91,020	91,063
Total general services	<u>216,374</u>	<u>232,036</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Administrative and business offices	457,896	436,943
Total salaries and benefits	<u>\$ 1,641,563</u>	<u>\$ 1,578,706</u>

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE 3 - MEDICAL SUPPLIES AND DRUGS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
NURSING SERVICES:		
Routine	\$ <u>60,753</u>	\$ <u>82,819</u>
OTHER PROFESSIONAL SERVICES:		
Pharmacy	<u>18,881</u>	<u>13,589</u>
Total medical supplies and drugs	<u>\$ 79,634</u>	<u>\$ 96,408</u>

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE 4 - OTHER SUPPLIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
GENERAL SERVICES:		
Dietary	\$ 2,986	\$ 9,141
Housekeeping	72,313	67,219
Plant operations, maintenance, and social services	11,666	9,640
Total general services	86,965	86,000
 ADMINISTRATIVE AND FISCAL SERVICES:		
Administrative and business office	4,837	6,735
Total other supplies	\$ 91,802	\$ 92,735

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE 5 - OTHER EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
NURSING SERVICES:		
Routine	\$ 9,983	\$ 6,209
GENERAL SERVICES:		
Dietary	382,642	397,713
Housekeeping	200	-
Plant operation, maintenance, and social services	<u>129,643</u>	<u>148,885</u>
Total general services	<u>512,485</u>	<u>546,598</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Administrative and business office	<u>368,907</u>	<u>328,662</u>
Total other expenses	<u>\$ 891,375</u>	<u>\$ 881,469</u>



**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, 2012, and have issued our report thereon dated November 1, 2012. 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

Management of Bledsoe County Nursing Home (a component unit of Bledsoe County, Tennessee) is responsible for establishing and maintaining effective 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 deficiency, or a 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. 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 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 a 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 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*.

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.

Johnson, Wickey & Meucham, P.C.

Chattanooga, Tennessee
November 1, 2012

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

PRIOR YEAR FINDINGS

Finding Control Number and Status

2009-1 Still outstanding for 2012

CURRENT YEAR FINDINGS AND REPOSESES

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 29.

Bledsoe County Nursing Home

Pikeville, Tennessee 37367

*107 Wheelertown Ave. — P. O. Box 250
Telephone (423) 447-6811*

November 1, 2012

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, 2012.

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 Johnson, Hickey & Murchison, P.C., on November 1, 2012, referenced instances of noncompliance and reportable conditions. The corrective action taken on these items is as follows:

Finding 2009-1

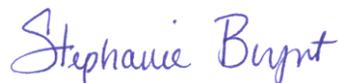
RECONCILIATION OF BALANCE SHEET ACCOUNTS

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