

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

Pikeville, Tennessee

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended June 30, 2013 and 2012

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), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bledsoe County Nursing Home (a component unit of Bledsoe County, Tennessee) as of June 30, 2013 and 2012, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 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 audits 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) basic financial statements. The schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. It has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) internal control over financial reporting and compliance.

Johnson, Wickey & Menckson, P.C.

Chattanooga, Tennessee
November 5, 2013

**Bledsoe County Nursing Home
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

This discussion and analysis is intended to serve as an introduction to the June 30, 2013 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 position present the results of BCNH's operations. The statement reports all revenues and expenses and reconciles the beginning and end of year net position balances.

The balance sheets include all of BCNH's assets and liabilities as of June 30, 2013. The statement also presents the balance of assets in excess of liabilities, or net position.

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, 2013.

FINANCIAL ANALYSIS

Financial Position -

Total assets, total liabilities and total net position at June 30, 2013, 2012 and 2011 are as follows:

	<u>2013</u>	<u>2012</u>	<u>Percent Change</u>	<u>2012</u>	<u>2011</u>	<u>Percent Change</u>
Current assets	\$ 660,702	\$ 606,957	9%	\$ 606,957	\$ 767,036	(21%)
Property & equipment, net	409,564	476,034	(14%)	476,034	545,073	(13%)
Assets limited as to use:						
Resident trust fund	<u>14,598</u>	<u>14,799</u>	(1%)	<u>14,799</u>	<u>17,616</u>	(16%)
Total assets	<u>\$ 1,084,864</u>	<u>\$ 1,097,790</u>	(1%)	<u>\$ 1,097,790</u>	<u>\$ 1,329,735</u>	(17%)

Current liabilities	\$ 229,715	\$ 188,444	22%	\$ 188,444	\$ 205,283	(8%)
Other liabilities:						
Resident trust fund	<u>14,598</u>	<u>14,799</u>	(1%)	<u>14,799</u>	<u>17,616</u>	(16%)
Total liabilities	<u>244,313</u>	<u>203,243</u>	20%	<u>203,243</u>	<u>222,899</u>	(9%)
Net position						
Net investment in capital assets	409,564	476,034	(14%)	476,034	545,073	(13%)
Unrestricted	<u>430,987</u>	<u>418,513</u>	3%	<u>418,513</u>	<u>561,753</u>	(25%)
Total net position	<u>840,551</u>	<u>894,547</u>	(6%)	<u>894,547</u>	<u>1,106,826</u>	(19%)
Total liabilities and net position	<u>\$ 1,084,864</u>	<u>\$ 1,097,790</u>	(1%)	<u>\$ 1,097,790</u>	<u>\$ 1,329,735</u>	(17%)

Operations -

Components of BCNH's operating revenues, operating expenses and nonoperating income for the years ended June 30, 2013, 2012, and 2011 are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenue:			
Net patient service revenue	\$ 2,728,461	\$ 2,590,626	\$ 2,808,349
Rental income	12,000	12,000	12,000
Other revenue	<u>12,516</u>	<u>68</u>	<u>106</u>
Total operating revenues	<u>2,752,977</u>	<u>2,602,694</u>	<u>2,820,455</u>
Operating Expenses:			
Salaries and benefits	1,642,569	1,641,563	1,578,706
Medical supplies and drugs	46,154	79,634	96,408
Insurance	119,098	88,589	95,577
Other supplies	84,873	91,802	92,735
Depreciation	66,470	69,039	66,620
Other expenses	<u>899,000</u>	<u>891,375</u>	<u>881,469</u>
Total operating expenses	<u>2,858,164</u>	<u>2,862,002</u>	<u>2,811,515</u>
Operating income (loss)	<u>(105,187)</u>	<u>(259,308)</u>	<u>8,940</u>
Nonoperating Income:			
Contributions	45,000	45,000	16,405
Interest income	<u>6,191</u>	<u>2,029</u>	<u>1,612</u>
Total nonoperating income	<u>51,191</u>	<u>47,029</u>	<u>18,017</u>

Income (loss) before contributions	<u>(53,996)</u>	<u>(212,279)</u>	<u>26,957</u>
Capital grants and contributions:			
Capital contributions	<u>-</u>	<u>-</u>	<u>28,595</u>
Total capital grants and contributions	<u>-</u>	<u>-</u>	<u>28,595</u>
Increase (decrease) in unrestricted net position	(53,996)	(212,279)	55,552
Net position, beginning of year	<u>894,547</u>	<u>1,106,826</u>	<u>1,051,274</u>
Net position, end of year	<u>\$ 840,551</u>	<u>\$ 894,547</u>	<u>\$ 1,106,826</u>

In fiscal year ended 2013, we experienced a \$137,835 increase in patient service revenue. In fiscal year ended 2012, we experienced a \$217,723 decrease in patient service revenue.

Nonoperating Income -

Nonoperating income consists of interest earned on BCNH’s cash accounts and a \$45,000 operating contribution from the County, which the Nursing Home received in 2013 and 2012. All proceeds for each year were used to supplement operations.

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, 2013 and 2012, BCNH had \$409,564 and \$476,034, 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, 2013 and 2012.

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.

Roster of Management Officials and Those Charged with Governance –

The Bledsoe County Nursing Home Board of Directors consists of the following individuals:

- Steve Standefer, Chairman
- Tanya Roberson, Vice-Chairman
- Don Snow
- Brenda Burgess
- Robert Reece
- George Young
- Bobby Collier

The Senior Management of Bledsoe County Nursing Home consists of the following individual:

- Stephanie Boynton, Administrator

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
BALANCE SHEETS
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
CURRENT ASSETS:		
Cash	\$ 309,448	\$ 214,103
Certificates of deposit	158,000	158,000
Patient accounts receivable, net of allowance for doubtful accounts of \$83,000 in 2013 and 2012	174,481	222,999
Prepaid expenses	18,773	11,855
Total current assets	660,702	606,957
ASSETS LIMITED AS TO USE:		
Resident trust fund	14,598	14,799
NET CAPITAL ASSETS	409,564	476,034
Total assets	\$ 1,084,864	\$ 1,097,790

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

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 113,432	\$ 71,107
Accrued salaries and wages	59,833	60,337
Accrued compensated absences	46,950	46,950
Other accrued liabilities	<u>9,500</u>	<u>10,050</u>
 Total current liabilities	 <u>229,715</u>	 <u>188,444</u>
 OTHER LIABILITIES:		
Resident trust fund liability	<u>14,598</u>	<u>14,799</u>
 Total liabilities	 <u>244,313</u>	 <u>203,243</u>
 NET POSITION:		
Net investment in capital assets	409,564	476,034
Unrestricted	<u>430,987</u>	<u>418,513</u>
 Total net position	 <u>840,551</u>	 <u>894,547</u>
 Total liabilities and net position	 <u>\$ 1,084,864</u>	 <u>\$ 1,097,790</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 POSITION
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
REVENUES:		
Net patient service revenue	\$ 2,728,461	\$ 2,590,626
Rental income	12,000	12,000
Other revenue	<u>12,516</u>	<u>68</u>
Total revenues	<u>2,752,977</u>	<u>2,602,694</u>
EXPENSES:		
Salaries and benefits	1,642,569	1,641,563
Medical supplies and drugs	46,154	79,634
Insurance	119,098	88,589
Other supplies	84,873	91,802
Depreciation	66,470	69,039
Other expenses	<u>899,000</u>	<u>891,375</u>
Total expenses	<u>2,858,164</u>	<u>2,862,002</u>
OPERATING LOSS	<u>(105,187)</u>	<u>(259,308)</u>
NONOPERATING REVENUE:		
Contributions	45,000	45,000
Interest income	<u>6,191</u>	<u>2,029</u>
Total nonoperating revenue	<u>51,191</u>	<u>47,029</u>
DECREASE IN UNRESTRICTED NET POSITION	(53,996)	(212,279)
UNRESTRICTED NET POSITION, BEGINNING OF YEAR	<u>894,547</u>	<u>1,106,826</u>
UNRESTRICTED NET POSITION, END OF YEAR	<u><u>\$ 840,551</u></u>	<u><u>\$ 894,547</u></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
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 2,776,979	\$ 2,737,010
Cash payments to suppliers for goods and services	(1,148,589)	(1,205,933)
Cash payments to employees for services	(1,608,752)	(1,607,746)
Other revenue	12,516	68
Proceeds from rental facility	12,000	12,000
Net cash provided (used) by operating activities	44,154	(64,601)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital contributions	45,000	45,000
Net cash provided by noncapital financing activities	45,000	45,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	6,191	2,029
Net cash provided by investing activities	6,191	2,029
NET INCREASE (DECREASE) IN CASH:	95,345	(17,572)
Cash, beginning	214,103	231,675
Cash, ending	\$ 309,448	\$ 214,103

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

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET		
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating loss	\$ (105,187)	\$ (259,308)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities -		
Depreciation	66,470	69,039
Provision for bad debts	-	72,010
Net (increase) decrease in operating assets -		
Patient accounts receivable	48,518	74,374
Prepaid expenses	(6,918)	(3,877)
Net increase (decrease) in operating liabilities -		
Accounts payable	42,325	(25,155)
Accrued liabilities	<u>(1,054)</u>	<u>8,316</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 44,154</u>	<u>\$ (64,601)</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, 2013 AND 2012

(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 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. 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 resident 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. The Nursing Home had \$158,000 in cash equivalents at June 30, 2013 and 2012, respectively.

Patient accounts receivable –

For patient accounts receivable, 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.

Assets limited as to use –

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

**BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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

Capital assets –

Individual capital assets purchased for greater than \$5,000 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 –

Operating revenues include net patient service revenue, rental income, and any other revenues generated by the Nursing Home’s day to day operations. The Medicaid program, a major third-party payor, reimburses the Nursing Home for services rendered to Medicaid beneficiaries based on a prospective per diem rate established by the Medicaid program. The per diem rate established by Medicaid is based primarily on prior years’ cost, subject to a maximum per diem rate set by the State of Tennessee. A provision for contractual adjustment is made to reduce these reimbursements to estimated payments.

Revenue from the Medicaid program accounted for approximately 95% and 97% of the Nursing Home’s net patient service revenue for the years ended June 30, 2013 and 2012, respectively.

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

Nonoperating income consists of interest income and contributions from outside parties.

Net position –

Net position of the Nursing Home is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Nursing Home. *Unrestricted net position* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*. There were no restricted assets at June 30, 2013 or 2012.

BLED SOE COUNTY NURSING HOME
(A COMPONENT UNIT OF BLED SOE COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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

Deferred Outflows/Inflows of Resources –

During the current year, the Nursing Home adopted the provisions of GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Under this Statement, GASB has defined deferred outflows of resources and deferred inflows of resources as follows:

Deferred outflows of resources - a consumption of net assets by the government that is applicable to a future reporting period.

Deferred inflows of resources - an acquisition of net assets by the government that is applicable to a future reporting period.

As of June 30, 2013, the Nursing Home did not have any deferred outflows or inflows of resources. This statement had no significant impact on the Nursing Home.

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

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

(2) MANAGEMENT CONTRACT (Continued):

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, Bledson 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 \$140,000 and \$137,500 in 2013 and 2012, respectively.

(3) DEPOSITS AND CERTIFICATES OF DEPOSIT:

The carrying amounts of the Nursing Home's deposits with commercial banks are \$482,046 and \$386,902 and the bank balances are \$496,281 and \$416,524 at June 30, 2013 and 2012, 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 balances for June 30, 2013, \$305,566 was covered by federal depository insurance and \$190,715 and was covered by collateral held in the pledging bank's trust department in the Nursing Home's name.

Of the bank balances 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, 2013 and 2012 was 0.20% and 0.75%, respectively.

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

(4) ASSETS LIMITED AS TO USE:

The Nursing Home administers certain funds which are residents' 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:

	2013	2012
Resident trust fund	\$ 14,598	\$ 14,799

(5) CAPITAL ASSETS:

Capital assets consist of the following:

	Balance at June 30, 2012	Additions	Deletions	Balance at June 30, 2013
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	74,092	-	-	74,092
Total capital assets being depreciated	1,627,228	-	-	1,627,228
Less accumulated depreciation for:				
Land improvements	41,062	377	-	41,439
Building	819,669	57,116	-	876,785
Fixed equipment	210,521	5,463	-	215,984
Major moveable equipment	42,698	-	-	42,698
Minor moveable equipment	37,244	3,514	-	40,758
Total accumulated depreciation	1,151,194	66,470	-	1,217,664
Capital assets, net	\$ 476,034	\$ (66,470)	\$ -	\$ 409,564

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

(5) CAPITAL ASSETS (Continued):

	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>

(6) PURCHASED SERVICES:

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

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

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

	<u>2013</u>	<u>2012</u>
Dietary purchased services	<u>\$ 383,666</u>	<u>\$ 382,642</u>

The total amount of unpaid expense due to the Hospital amounted to \$113,432 and \$69,033 at June 30, 2013 and 2012, respectively. This amount is included in accounts payable on the balance sheet.

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

(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 \$46,950 are reported at June 30, 2013 and 2012, 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:

	2013	2012
Medicaid	86%	89%
Patients	14%	11%
	100%	100%

(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, 2013 and 2012, that have initial or remaining lease terms in excess of one year.

Total rental expense in 2013 and 2012 for all operating leases was \$4,824 and \$3,756, respectively.

Claims-made insurance policies –

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. The primary level of coverage is \$1,000,000 per occurrence and \$3,000,000 in the aggregate.

Coverage for workers' compensation insurance is provided on a claims-made basis. The primary level of coverage is \$100,000 per claim, \$100,000 per employee, and \$500,000 in the aggregate.

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

(9) COMMITMENTS AND CONTINGENCIES (Continued):

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, 2013 and 2012, was \$430,987 and \$418,513, respectively.

(11) CONTRIBUTION INCOME:

In 2013 and 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, 2013 and 2012, all proceeds had been used.

(12) EMPLOYEE BENEFIT PLAN:

Effective July 6, 2010, Bledsoe 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 \$74,241 and \$80,922 for 2013 and 2012, respectively. Information in regard to funding status, contribution requirements, and trends appear in the financial statements of Bledsoe 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 5, 2013.

SUPPLEMENTARY INFORMATION

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE 1 - NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
PATIENT SERVICE REVENUE:		
Routine	\$ 2,745,468	\$ 2,684,888
Central service and supply	26,251	32,936
Pharmacy	36,785	38,497
Total patient service revenue	2,808,504	2,756,321
REVENUE DEDUCTIONS:		
Medicaid contractual adjustments	80,043	93,685
Provisions for bad debts	-	72,010
Total revenue deductions	80,043	165,695
Net patient service revenue	\$ 2,728,461	\$ 2,590,626

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE 2 - SALARIES AND BENEFITS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
NURSING SERVICES:		
Routine	\$ 957,136	\$ 962,800
OTHER PROFESSIONAL SERVICES:		
Pharmacy	1,920	4,493
GENERAL SERVICES:		
Housekeeping	104,683	125,354
Plant operation	87,099	91,020
Total general services	191,782	216,374
ADMINISTRATIVE AND FISCAL SERVICES:		
Administrative and business offices	491,731	457,896
Total salaries and benefits	\$ 1,642,569	\$ 1,641,563

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE 3 - MEDICAL SUPPLIES AND DRUGS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
NURSING SERVICES:		
Routine	\$ 26,530	\$ 60,753
OTHER PROFESSIONAL SERVICES:		
Pharmacy	19,624	18,881
Total medical supplies and drugs	\$ 46,154	\$ 79,634

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE 4 - OTHER SUPPLIES
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
GENERAL SERVICES:		
Dietary	\$ 1,619	\$ 2,986
Housekeeping	69,304	72,313
Plant operations, maintenance, and social services	7,923	11,666
Total general services	78,846	86,965
ADMINISTRATIVE AND FISCAL SERVICES:		
Administrative and business office	6,027	4,837
Total other supplies	\$ 84,873	\$ 91,802

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE 5 - OTHER EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
NURSING SERVICES:		
Routine	\$ <u>5,809</u>	\$ <u>9,983</u>
GENERAL SERVICES:		
Dietary	383,666	382,642
Housekeeping	65	200
Plant operation, maintenance, and social services	<u>121,629</u>	<u>129,643</u>
Total general services	<u>505,360</u>	<u>512,485</u>
ADMINISTRATIVE AND FISCAL SERVICES:		
Administrative and business office	<u>387,831</u>	<u>368,907</u>
Total other expenses	<u>\$ 899,000</u>	<u>\$ 891,375</u>



**INDEPENDENT AUDITORS' 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, 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, the financial statements of Bledsoe County Nursing Home (a component unit of Bledsoe County, Tennessee) (the Nursing Home), which comprise the balance sheets as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Nursing Home's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Nursing Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nursing Home's internal control.

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. 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.

Our consideration of internal control 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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2009-1, that we consider to be a significant deficiency.

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*.

Bledsoe County Nursing Home's Response to Findings

Bledsoe County Nursing Home's (a component unit of Bledsoe County, Tennessee) response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Bledsoe County Nursing Home's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Johnson, Wickey & Menckem, P.C.

Chattanooga, Tennessee
November 5, 2013

BLEDSON COUNTY NURSING HOME
(A COMPONENT UNIT OF BLEDSON COUNTY, TENNESSEE)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013

PRIOR YEAR FINDINGS:

Finding Control Number and Status

2009-1 Still outstanding for 2013

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 30.

Bledsoe County Nursing Home

Pikeville, Tennessee 37367

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

November 5, 2013

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 significant deficiency associated with our internal controls for the year ended June 30, 2013.

The "Independent Auditors' 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, 2013, referenced an instance of a significant deficiency. The corrective action taken on these items is as follows:

Finding 2009-1

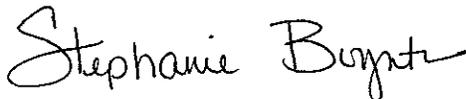
RECONCILIATION OF BALANCE SHEET ACCOUNTS

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