



Financial Statements

For the Years Ended
June 30, 2013 and 2012

Introductory Section

BRADLEY HEALTHCARE & REHABILITATION CENTER

Financial Statements

For the Years Ended June 30, 2013 and 2012

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BRADLEY HEALTHCARE & REHABILITATION CENTER

Members of the Board of Trustees

<u>Board Member Name</u>	<u>Title</u>
Dr. John Stanbery	Chairperson
Wendy Beck	Vice-Chairperson
Josephine Frazier	Secretary
Sandra Snider	Member
Lonnie Setlich	Member
Amanda Whitley	Member
Bill Winters	Member
Erin Fuller	Member
Robert Rominger	Member

BRADLEY HEALTHCARE & REHABILITATION CENTER

Members of Management

<u>Name</u>	<u>Title</u>
Dennis Burtnett	Administrator
Teresa Valadez	Director of Nursing
Sandra Brock	Controller/ Human Resources Director
Becky Crabtree	Business Office Manager

Financial Section

INDEPENDENT AUDITOR'S REPORT

The Governing Body
Bradley Healthcare & Rehabilitation Center

Report on the Financial Statements

We have audited the accompanying basic financial statements of Bradley Healthcare & Rehabilitation Center, a component unit of Bradley County, Tennessee as of June 30, 2013 and 2012, for the years then ended, and the related notes to the financial statements, which collectively comprise Bradley Healthcare & Rehabilitation Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Bradley Healthcare & Rehabilitation Center's 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.

Auditor's Responsibility

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 from 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 auditor's 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.² 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 Bradley Healthcare & Rehabilitation Center as of June 30, 2013 and 2012, the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

In accordance with *Government Auditing Standards*, we have issued our report dated September 11, 2013, on our consideration of Bradley Healthcare & Rehabilitation Center's internal control over financial reporting and 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.

Government accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Government 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 evidence sufficient to express an opinion or provide any assurance.

Chattanooga, Tennessee
September 11, 2013



BRADLEY HEALTHCARE & REHABILITATION CENTER

Balance Sheets

June 30, 2013 and 2012

ASSETS	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	\$ 1,692,806	\$ 2,445,719
Accounts receivable, net of allowance for uncollectible accounts of \$203,912 in 2013 and \$224,627 in 2012	1,316,725	940,031
Third-party settlements receivable	79,413	—
Inventories	44,430	29,839
Prepaid expenses	<u>6,170</u>	<u>3,965</u>
Total current assets	3,139,544	3,419,554
Property and equipment, net	2,248,236	2,448,760
Assets whose use is limited	<u>202,882</u>	<u>206,669</u>
Total assets	<u>\$ 5,590,662</u>	<u>\$ 6,074,983</u>

The accompanying notes are an integral part of these financial statements.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Balance Sheets (continued)

June 30, 2013 and 2012

LIABILITIES AND NET ASSETS	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable	\$ 272,582	\$ 213,179
Accrued payroll	620,308	618,983
Third-party settlements payable	—	9,020
Accrued expenses	<u>82,659</u>	<u>85,717</u>
 Total current liabilities	 975,549	 926,899
Long-term liabilities:		
Restricted funds	<u>69,252</u>	<u>73,925</u>
 Total liabilities	 <u>1,044,801</u>	 <u>1,000,824</u>
Net assets:		
Invested in capital assets	2,248,236	2,448,760
Temporarily restricted net assets	11,630	10,743
Permanently restricted net assets	122,000	122,000
Unrestricted net assets	<u>2,163,995</u>	<u>2,492,656</u>
 Total net assets	 <u>4,545,861</u>	 <u>5,074,159</u>
 Total liabilities and net assets	 <u>\$ 5,590,662</u>	 <u>\$ 6,074,983</u>

The accompanying notes are an integral part of these financial statements.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Statements of Operations and Changes in Net Assets

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$108,000 in 2013 and 2012)	\$ 11,412,497	\$ 12,058,411
Other operating revenue	<u>281,502</u>	<u>85,465</u>
Total operating revenues	<u>11,693,999</u>	<u>12,143,876</u>
Operating expenses:		
Nursing services	6,846,370	6,941,283
Dietary services	1,202,183	1,201,766
General services	1,712,305	1,720,496
Administrative services	2,215,026	2,601,505
Depreciation expense	<u>267,193</u>	<u>307,571</u>
Total operating expenses	<u>12,243,077</u>	<u>12,772,621</u>
Loss from operations	<u>(549,078)</u>	<u>(628,745)</u>
Nonoperating gains:		
Donations and grants	18,424	305
Interest income	<u>1,466</u>	<u>9,270</u>
Total nonoperating gains	<u>19,890</u>	<u>9,575</u>
Decrease in unrestricted net assets	(529,188)	(619,170)
Change in temporarily restricted net assets	890	1,845
Net assets at beginning of year	<u>5,074,159</u>	<u>5,691,484</u>
Net assets at end of year	<u><u>\$ 4,545,861</u></u>	<u><u>\$ 5,074,159</u></u>

The accompanying notes are an integral part of these financial statements.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from patients and other payors	\$ 10,947,370	\$ 12,015,312
Cash payments to suppliers for goods and services	(4,209,137)	(4,780,506)
Cash payments to employees for services	(7,725,873)	(7,624,287)
Other operating revenue	<u>281,502</u>	<u>85,465</u>
Net cash (used for) provided by operating activities	<u>(706,138)</u>	<u>(304,016)</u>
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(66,665)	(90,339)
Donations and grants received	<u>18,424</u>	<u>305</u>
Net cash used for capital and related financing activities	<u>(48,241)</u>	<u>(90,034)</u>
Cash flows from investing activities:		
Interest earned	<u>1,466</u>	<u>9,270</u>
Net cash provided by investing activities	<u>1,466</u>	<u>9,270</u>
Net (decrease) increase in cash	(752,913)	(384,780)
Cash and cash equivalents at beginning of year	<u>2,445,719</u>	<u>2,830,499</u>
Cash and cash equivalents at end of year	<u>\$ 1,692,806</u>	<u>\$ 2,445,719</u>

The accompanying notes are an integral part of these financial statements.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Statements of Cash Flows (continued)

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Reconciliation of loss from operations to net cash (used for) provided by operating activities:		
Loss from operations	<u>\$ (549,078)</u>	<u>\$ (628,745)</u>
Adjustments to reconcile loss from operations to net cash (used for) provided by operating activities:		
Depreciation	267,193	307,571
Provision for bad debts	108,000	108,000
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(484,694)	(188,952)
Third-party settlements	(88,433)	37,853
Inventories	(14,591)	6,553
Prepaid expenses	(2,205)	(1,425)
Increase (decrease) in:		
Accounts payable	59,403	(31,349)
Accrued payroll	1,325	89,266
Accrued expenses	<u>(3,058)</u>	<u>(2,788)</u>
Total adjustments	<u>(157,060)</u>	<u>324,729</u>
Net cash (used for) provided by operating activities	<u>\$ (706,138)</u>	<u>\$ (304,016)</u>

The accompanying notes are an integral part of these financial statements.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Notes to the Financial Statements

June 30, 2013 and 2012

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Bradley Healthcare & Rehabilitation Center (the “Nursing Center”) is a component unit of Bradley County, Tennessee. The Nursing Center’s Board of Trustees is appointed by the County Board of Commissioners. Capital projects are funded primarily from general obligation bonds of the County.

Nature of Operations

The Nursing Center is principally engaged in providing long-term medical and therapeutic care to elderly residents of Bradley County and the surrounding area.

Basis of Accounting

The Nursing Center uses the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred using the economic resources measurement focus.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Income Taxes

The Internal Revenue Service has ruled that the Nursing Center, as a component unit of Bradley County, is an exempt organization as described in Section 501(a) of the Internal Revenue Code; therefore, no provision for income taxes is provided in the financial statements.

Patient Service Revenue

Patient service revenue is reported at the Nursing Center’s estimated net realizable amounts from residents, third-party payors, and others for services rendered.

Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Notes to the Financial Statements

(Continued)

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

For purposes of the statements of cash flows, the Nursing Center considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Limited use assets include cash held for patients which are not considered cash equivalents for purposes of the statements of cash flows as they are not the property of the Nursing Center and can only be used at the direction of the patient. The Nursing Center also holds limited use assets that are restricted by donors for specific purposes that are not considered cash equivalents until the specifications are met. These items are not considered cash equivalents until they are transferred to unrestricted net assets.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful lives of the depreciable assets, ranging from 5 to 40 years, using the straight-line method.

Compensated Absences

Accumulated paid time off is accrued when earned.

Net Assets

Net assets of the Nursing Center are classified in four components. Net assets invested in capital assets consist of property and equipment net of accumulated depreciation and reduced by any outstanding borrowings used to finance the purchase or construction of those assets. There was no outstanding debt for property and equipment. Temporarily restricted net assets are subject to donor imposed restrictions that may or will be met, whether by action of the Nursing Center or the passage of time. When a restriction expires, temporarily restricted net assets for which the restricted purpose is related to the Nursing Center are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Nursing Center. Generally, the donors of permanently restricted net assets permit the Nursing Center to use all or part of the income earned on any related investment for general or specific purposes. Unrestricted net assets are the remaining net assets that do not meet the definition of net assets invested in capital assets or restricted net assets.

Operating and Non-Operating Revenues

The Nursing Center defines operating revenue as any revenue derived from the provision of services to patients or ancillary thereto. Any revenue earned that is not related to the provision of patient care services is considered non-operating.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Notes to the Financial Statements

(Continued)

Note 2 CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Nursing Center's deposits may not be returned to it. The Nursing Center's deposits are made to a local bank that participates in the Tennessee Bank Collateral Pool (the "Pool"), a multi-entity risk pool that assumes the burden of collateralizing public funds on deposit with local banks. The Treasury Department of the State of Tennessee administers the Pool. The Treasury Department, using uniform procedures, centralizes the collateralization of public funds. The funds in the Pool are collateralized at 105% of the face amount of the deposits uninsured by the Federal Deposit Insurance Corporation (the "FDIC"). All deposits are either insured by the FDIC or through the Pool resulting in no custodial credit risk.

Note 3 INVENTORIES

Inventories consist of the following:

	<u>2013</u>	<u>2012</u>
General stores	\$ 34,109	\$ 20,696
Foods and dietary	7,982	8,152
Enteral feeding supplies	2,339	991
	<u>\$ 44,430</u>	<u>\$ 29,839</u>

Note 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited are as follows:

	<u>2013</u>	<u>2012</u>
Patient trust funds	\$ 69,252	\$ 73,925
Scholarship fund	13,589	13,570
Activities fund	1,234	1,349
Chapel fund	1,478	1,178
Country store fund	4,144	4,014
Citizens' Endowment Fund	113,185	112,633
	<u>\$ 202,882</u>	<u>\$ 206,669</u>

These assets represent cash and certificates of deposit with a local financial institution. The patient trust funds are patients' personal assets and are reflected in the financial statements as both an asset and a liability. The Scholarship, Activities, Chapel, Country Store, and Citizens' Endowment funds represent restricted cash and are shown on the balance sheet as both limited use assets and restricted net assets.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Notes to the Financial Statements

(Continued)

Note 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>2013</u>
Land	\$ 1,250	\$ —	\$ —	\$ 1,250	\$ —	\$ —	\$ 1,250
Land improvements	379,814	—	—	379,814	—	—	379,814
Buildings	5,503,076	28,245	—	5,531,321	11,800	—	5,543,121
Fixed equipment	875,111	40,290	—	915,401	34,758	—	950,159
Major movable	1,779,353	22,568	—	1,801,921	20,110	—	1,822,031
Computer software	43,695	—	—	43,695	—	—	43,695
Computer hardware	128,167	4,818	—	132,985	—	—	132,985
Construction in progress	5,582	—	(5,582)	—	—	—	—
Vehicles	106,444	—	—	106,444	—	—	106,444
	<u>8,822,492</u>	<u>95,921</u>	<u>(5,582)</u>	<u>8,912,831</u>	<u>66,668</u>	<u>—</u>	<u>8,979,499</u>
Less accumulated depreciation:							
Land improvements	(230,201)	—	(24,504)	(254,705)	—	(18,474)	(273,179)
Buildings	(3,452,513)	—	(173,041)	(3,625,554)	—	(171,388)	(3,796,942)
Fixed equipment	(790,869)	—	(13,410)	(804,279)	—	(13,311)	(817,590)
Major movable	(1,435,912)	—	(83,767)	(1,519,679)	—	(56,247)	(1,575,926)
Computer software	(41,675)	—	(618)	(42,293)	—	(618)	(42,911)
Computer hardware	(102,881)	—	(8,236)	(111,117)	—	(7,154)	(118,271)
Vehicles	(102,447)	—	(3,997)	(106,444)	—	—	(106,444)
	<u>(6,156,498)</u>	<u>—</u>	<u>(307,573)</u>	<u>(6,464,071)</u>	<u>—</u>	<u>(267,192)</u>	<u>(6,731,263)</u>
Property and equipment, net	<u>\$ 2,665,994</u>	<u>\$ 95,921</u>	<u>\$ (313,155)</u>	<u>\$ 2,448,760</u>	<u>\$ 66,668</u>	<u>\$ (267,192)</u>	<u>\$ 2,248,236</u>

BRADLEY HEALTHCARE & REHABILITATION CENTER

Notes to the Financial Statements

(Continued)

Note 6 PERMANENTLY RESTRICTED NET ASSETS

Assets whose use is permanently restricted are as follows:

	<u>2013</u>	<u>2012</u>
Scholarship fund	\$ 12,000	\$ 12,000
Citizens' Endowment Fund	<u>110,000</u>	<u>110,000</u>
	<u>\$ 122,000</u>	<u>\$ 122,000</u>

Citizens' Endowment Fund

On December 27, 2005, the trustees of the Nursing Center took over control of the Bradley Memorial Hospital Citizens' Endowment Fund (the "Fund"). The Fund was originally established at the bequest of a private citizen to provide a source of income for the Bradley Memorial Hospital (the "Hospital"). On October 14, 2005, the Hospital was sold to a private entity and in accordance with the terms of the Hospital's Declaration of Trust, the assets of the Fund were required to be transferred to another county-owned entity. The trustees of the Nursing Center took over management of the Fund by executing a separate Declaration of Trust dated December 27, 2005. Should the Nursing Center be sold to a private entity, these funds are to be transferred to the Cleveland Public Library.

Donations may be made to the Fund and be designated either restricted or unrestricted. No part of the original principal of the Fund shall be expended; it should be invested and reinvested by the Nursing Center's trustees at a financial institution in Bradley County, Tennessee, and be fully insured by a federal agency. All income of the Fund must be used for exempt purposes under federal tax laws and regulations applicable to the Fund.

Scholarship Fund

The Scholarship Fund was established by a former medical director of the Nursing Center as a memorial to his sister. The corpus of the fund is to be held in a certificate of deposit with the earnings to be used to fund scholarships for Nursing Center employees who desire to pursue a career in nursing. The fund is administered by the trustees through the Nursing Center's management.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Notes to the Financial Statements

(Continued)

Note 7 NET PATIENT SERVICE REVENUE

Medicare

The Nursing Center is paid for Medicare patients under a prospective payment system that bases payment on categories that are indicative of the amount of resources used to treat the specific patient. The category is determined based on periodic clinical assessments of the patient's functional ability.

TennCare

Services rendered to TennCare recipients are reimbursed at per day rates determined by the Tennessee Comptroller's office. The rates are subject to ceilings for both skilled and intermediate care. The per day rate is established prospectively, based on the prior year's cost report.

A summary of gross and net patient revenues for the years ended June 30, 2013 and 2012, follows:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 2,649,954	\$ 2,565,796
TennCare	8,086,269	8,057,132
Other	<u>1,364,542</u>	<u>1,387,635</u>
Gross patient service revenues	12,100,765	12,010,563
Contractual adjustments and uncollectible accounts	<u>(688,268)</u>	<u>47,848</u>
Net patient service revenue	<u>\$ 11,412,497</u>	<u>\$ 12,058,411</u>

Note 8 ACCRUED LEAVE

The Nursing Center has an all-purpose paid time off ("PTO") policy. Employees who work 30 hours or more per week are eligible to earn and use PTO. PTO is accrued using a formula based on length of employment at the Nursing Center. Accrued but unpaid PTO benefits at June 30, 2013 and 2012, were \$294,540 and \$293,765, respectively, and are included in accrued payroll as a current liability.

Note 9 PENSION PLAN

The Nursing Center sponsors a 403(b) salary deferral plan for the benefit of its employees. Under the plan, employees are allowed to defer a portion of their earnings up to certain maximum amounts. The Nursing Center matches the employee contributions at the amount deferred up to 4%. The employer match totaled \$92,465 and \$88,754 for the years ended June 30, 2013 and 2012, respectively. There was no unpaid liability at either June 30, 2013 and 2012.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Notes to the Financial Statements

(Continued)

Note 10 COMMITMENTS AND CONTINGENCIES

The Nursing Center is insured for professional liability under a claims-made policy with an independent insurance carrier. The policy covers all claims reported to the carrier for incidents that occur during the coverage period. The coverage period coincides with the Nursing Center's fiscal year. Coverage was renewed under a binder of coverage at June 30, 2013, rendering the need for tail coverage unnecessary. Premiums are determined by a variety of factors related to the Nursing Center.

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

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2013, which have initial or remaining terms of one year or more.

<u>Year Ending June 30</u>	<u>Minimum Lease Payments</u>
2014	<u>\$ 7,214</u>

Total rental expense for all operating leases was \$27,397 and \$25,832 for 2013 and 2012, respectively, and is included in the general services expense classification.

Note 11 RISK FINANCING AND RELATED INSURANCE ISSUES

The Nursing Center is subject to the risks of torts by its employees; theft, destruction or damage to its fixed assets; business interruptions; errors or omissions; injury or illness of employees while in the course of their employment and acts of God, such as fires, floods and earthquakes. The Nursing Center insures itself against losses due to this exposure through the purchase of commercial liability and workers' compensation insurance from reputable insurers. There have been no substantial losses incurred in prior years, and the amount of coverage purchased has not been reduced. Management is unaware of any potential claims that would result in reductions to or cancellation of coverage by the insurer.

NOTE 12 SUBSEQUENT EVENTS

As required by FASB ASC 850-10 "*Subsequent Events*," subsequent events for the Nursing Center have been evaluated through the financial statements date of issuance.

BRADLEY HEALTHCARE & REHABILITATION CENTER

Notes to the Financial Statements

(Continued)

NOTE 12 SUBSEQUENT EVENTS (CONTINUED)

Subsequent to the date of the balance sheet the Nursing Center was informed of the results of its annual licensure survey. Certain deficiencies were alleged by the survey team and a demand for civil money penalties was made. The Nursing Center has appealed the decision of the survey team, as well as the alleged penalties. The ultimate outcome of this contingency is uncertain and a reasonable estimate of the civil money penalties, if any, is not determinable.

Internal Control and Compliance Section



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of
Bradley Healthcare & Rehabilitation Center

We have audited the financial statements of Bradley Healthcare & Rehabilitation Center, a component unit of Bradley County, as of and for the year ended June 30, 2013, and have issued our report thereon dated [Report Date]. 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 of the financial statements of Bradley Healthcare and Rehabilitation Center (the "Nursing Center") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Nursing Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nursing Center's internal control.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiency in internal control that we consider to be a significant deficiency.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONTINUED)

The Nursing Center lacks a complete segregation of duties. In an entity of this size the complete segregation of duties is often an unreasonable and unattainable goal. Management has separated as many of the incompatible functions as possible to mitigate this lack of full segregation. We agree that management cannot attain a complete segregation of duties without substantial and unjustified expenditures of resources that do not substantially improve financial reporting for the entity.

Compliance and Other Matters

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

However, we noted other insignificant matters involving the internal control over financial reporting, which we have reported to the management of Bradley Healthcare & Rehabilitation in a separate letter dated September 20, 2013.

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

Chattanooga, Tennessee
September 11, 2013

