OBION COUNTY NURSING HOME

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

June 30, 2011

OBION COUNTY NURSING HOME
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INTRODUCTORY SECTION

OBION COUNTY NURSING HOME
ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS
June 30, 2011

Board Members

Tracey Batey
Terry Council
Earnest Daniels
Timothy Gantt
Janis Lacewell
Bobby Williams
Sonny Yarbrough

Management Officials

Tom Reddick, administrator
Kristi Davis, recorder

FINANCIAL SECTION

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AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Independent Auditor's Report

Board of Directors
Obion County Nursing Home
Union City, Tennessee

We have audited the accompanying financial statements of the Obion County Nursing Home, an enterprise fund of Obion County, Tennessee, as of and for the year ended June 30, 2011. These financial statements are the responsibility of Obion County Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Obion County Nursing Home enterprise fund and are not intended to present fairly the financial position of Obion County, Tennessee, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Obion County Nursing Home of Obion County, Tennessee, as of June 30, 2011, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Dyersburg, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Board of Directors
Obion County Nursing Home

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2011, on our consideration of the Obion County Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Obion County Nursing Home's financial statements as a whole. The introductory section and supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of general and administrative expenses 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. 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Alexander Thompson Arnold PLLC

Union City, Tennessee
September 26, 2011

OBION COUNTY NURSING HOME
STATEMENT OF NET ASSETS
June 30, 2011

ASSETS		
Current Assets		
Cash on hand and in bank		$ 539,615
Accounts receivable		155,819
Other receivables - Medicaid		3,832
Inventory		4,508
Total current assets		703,774
Non-Current Assets		
Capital assets		
Land improvements	12,745	
Buildings and improvements	1,016,238	
Movable equipment	248,823	
Fixed equipment	120,506	
Less accumulated depreciation	(1,143,497)	
Total capital assets (net of accumulated depreciation)		254,815
Total assets		**958,589**
LIABILITIES		
Current Liabilities		
Accounts payable		16,245
Patients' trust fund		7,539
Salaries payable		19,790
Accrued annual and sick leave		64,324
Total liabilities		**107,898**
NET ASSETS		
Invested in capital assets		254,815
Unrestricted		595,876
Total net assets		**$ 850,691**

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

OBION COUNTY NURSING HOME
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2011

	Amount	Percent
Operating Revenues		
Medicaid patients	$ 2,031,740	79.28
Private patients	512,666	20.01
Hospice	17,160	0.67
Other revenue	1,113	0.04
Total operating revenues	2,562,679	100.00
Operating Expenses		
General and administrative expenses - schedule (pg. 10)	2,415,592	94.26
Depreciation	46,328	1.81
Total operating expenses	2,461,920	96.07
Operating income	**100,759**	**3.93**
Non-Operating Revenue		
Interest income	4,619	0.18
Change in net assets	**105,378**	**4.11**
Net assets - July 1, 2010	745,313	
Net assets - June 30, 2011	**$ 850,691**	

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

OBION COUNTY NURSING HOME
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011

Cash Flows from Operating Activities	
Cash received from patients	$ 2,550,716
Cash paid to suppliers	(940,250)
Cash paid to employees	(1,473,951)
Other operating revenue	1,113
Net cash provided by operating activities	137,628
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(34,943)
Cash Flows from Investing Activities	
Interest on investments	4,619
Net increase in cash	**107,304**
Cash - July 1, 2010	432,311
Cash - June 30, 2011	**$ 539,615**

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating income		$ 100,759
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	46,328	
Increase in accounts receivable	(13,733)	
Decrease in other receivables - Medicaid	4,156	
Decrease in inventory	5	
Increase in accounts payable	253	
Decrease in patients' trust fund	(1,273)	
Increase in salaries payable	3,762	
Decrease in accrued annual and sick leave	(2,629)	
Total adjustments		36,869
Net cash provided by operating activities		**$ 137,628**

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Obion County Nursing Home is an enterprise fund of Obion County, Tennessee, and is included in their audit report.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Obion County Nursing Home accounts for its financial position and results of operations in accordance with generally accepted accounting principles applicable to governmental units. Generally accepted accounting principles for proprietary fund types are those applicable to similar businesses in the private sector and the measurement focus is on the determination of net income, financial position, and cash flows. Proprietary fund types are accounted for on the accrual basis, whereby income is recognized as it is earned and expenses are recognized as they are incurred, whether or not cash is received or paid out at that time. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20 gives governments the option of applying all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary funds, unless they conflict with or contradict GASB pronouncements. The County has elected not to implement FASB statements and interpretations issued thereafter, unless they are adopted by GASB.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Nursing Home are charges for patient services. Operating expenses for the enterprise fund include general and administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Nursing Home's Board of Directors approves a nonappropriatory budget annually as a management tool. Proprietary funds are not required to adopt annual budgets.

C. Assets, Liabilities, and Net Assets

Deposits and Investments

The Nursing Home's cash on hand and in bank is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of inception.

State statutes authorize the Nursing Home to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations by the U.S. government or its agencies, repurchase agreements, as approved by the state director of local finance, and the state's local government investment pool.

Accounts Receivable

An allowance for doubtful accounts has not been recorded in these financial statements. The direct write-off of bad accounts is made at intervals during each fiscal year. This method, although not recognized by generally accepted accounting principles, does not materially distort the presentation of the financial statements.

Inventory

At June 30, 2011, inventory was counted and valued at current replacement cost by management. Although this method is not recognized by generally accepted accounting principles, it does not materially distort the presentation of the financial statements.

Capital Assets

Capital assets are stated at cost, with the exception of the original building, which is recorded at estimated cost. The original building had an estimated cost of $93,392, which has been fully depreciated. Depreciation of fixed assets is computed using the straight-line method over the estimated useful lives of the assets.

Compensated Absences

Accumulated unpaid annual leave and sick leave are accrued at the end of each fiscal year. As of June 30, 2011, annual leave amounted to $12,062 and sick leave was $52,262, for a total accrual of $64,324. All accrued leave has been reported as a current liability in the statement of net assets.

Net Assets

Equity is classified as net assets and displayed in the following components:

- Invested in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any payables that are attributable to the acquisition, construction, or improvement of those assets

- Unrestricted – all other net assets that do no meet the description of the above category

NOTE 2 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2011, the Nursing Home had all deposits in interest-bearing checking accounts. There were no investments held by the Nursing Home at year end.

Custodial Credit Risk

The Nursing Home's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statutes required that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or

the Tennessee Bank Collateral Pool, by collateral held by the Nursing Home's agent in the Nursing Home's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the Nursing Home to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2011, all bank deposits were fully collateralized or insured.

B. Capital Assets

Capital assets activity during the year was as follows:

Description	Balance 7/01/10	Additions	Disposals	Balance 6/30/11
Capital assets, being depreciated				
Land improvements	$ 12,745	$ -	$ -	$ 12,745
Buildings and improvements	1,005,968	10,270	-	1,016,238
Movable equipment	224,150	24,673	-	248,823
Fixed equipment	120,506	-	-	120,506
Total capital assets being depreciated	1,363,369	34,943	-	1,398,312
Less accumulated depreciation				
Land improvements	12,745	-	-	12,745
Buildings and improvements	790,607	31,237	-	821,844
Movable equipment	184,982	13,817	-	198,799
Fixed equipment	108,835	1,274	-	110,109
Total accumulated depreciation	1,097,169	46,328	-	1,143,497
Total capital assets being depreciated, net	$ 266,200	$ (11,385)	$ -	$ 254,815

NOTE 3 – OTHER INFORMATION

A. Pension Plan

As reported in Note 1, the Obion County Nursing Home is an enterprise fund of Obion County, Tennessee; therefore, the Nursing Home's pension information has been reported in the County's audit report. For the year ended June 30, 2011, the total covered payroll for the Nursing Home was $1,037,302 and the pension contribution was $65,661. An audit report for Obion County, Tennessee, can be requested at 1 Bill Burnett Circle, Union City, TN 38261 for additional pension disclosures.

B. Risk Management

It is the policy of the Obion County Nursing Home to purchase commercial insurance for the risk of losses to which it is exposed. These risks include general liability, property and automobile coverage and fidelity position bonds. Employee health and accident insurance is purchased through the County's commercial insurance policy. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Nursing Home carries its workers' compensation coverage through the Tennessee Health Care Association (THCA), a self-insured trust fund. The THCA was established to be self-sustaining through member premiums. All members of the THCA must be approved for coverage and are jointly and severally liable for all claims of the association.

SUPPLEMENTARY INFORMATION SECTION

OBION COUNTY NURSING HOME
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
For the Year Ended June 30, 2011

Salaries	$ 1,475,084
Insurance	169,138
Food	137,887
Taxes and licenses	126,305
Payroll taxes	111,081
Utilities	92,796
Retirement plan	65,661
Medical supplies	53,771
Repairs and maintenance	48,581
Other departmental supplies and expense	18,403
Minor equipment	16,516
Medical directors and advisory board fees	14,675
Linen and laundry supplies	12,763
Dietary supplies	11,221
Administrative supplies and expenses	11,098
Contract services	10,360
Miscellaneous expense	9,830
Housekeeping supplies	8,840
Legal and audit fees	7,300
Dues and subscriptions	4,566
Travel and seminars	4,537
Advertising and promotion	3,067
Administrative notes and forms	1,067
Maintenance supplies	1,045
Total general and administrative expenses	**$ 2,415,592**

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION

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Kentucky Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Obion County Nursing Home

We have audited the financial statements of the Obion County Nursing Home, an enterprise fund of Obion County, Tennessee, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 26, 2011. Our report disclosed that the financial statements present only the Obion County Nursing Home enterprise fund and are not intended to present fairly the financial position of Obion County, Tennessee, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Obion County Nursing Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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 the 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 as item 97-1 to be significant deficiencies in internal control over financial reporting. 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.

Dyersburg, TN
Henderson, TN
Jackson, TN
Martin, TN
McKenzie, TN
Milan, TN
Murray, KY
Paris, TN
Trenton, TN
Union City, TN

Board of Directors
Obion County Nursing Home

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Obion County Nursing Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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.*

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

This report is intended solely for the information and use of the board of directors, management, and the State of Tennessee Comptroller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Alexander Thompson Arnold PLLC

Union City, Tennessee
September 26, 2011

OBION COUNTY NURSING HOME
SCHEDULE OF FINDINGS AND DISPOSITION OF PRIOR YEAR FINDINGS
For the year ended June 30, 2011

FINDINGS RELATIVE TO THE AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

97-1 Segregation of Duties

Condition: Due to the size of the staff, the Obion County Nursing Home cannot fully segregate the record-keeping, custodial, and authorization functions of its internal accounting controls for the year ended June 30, 2011.

Criteria: Generally accepted accounting principles require that accounting functions be adequately segregated to ensure that the internal accounting controls are effective.

Effect: The risk of errors and irregularities occurring and not being detected in a timely manner increases when accounting functions are not adequately segregated.

Recommendation: The Administrator should implement procedures to segregate the above functions as much as possible with the limited staff.

Management's response: The *Administrator has segregated the record-keeping at this facility as much as is practical due to the limited staff available (Administrator and Office Manager).*

The Administrator is responsible for:	*The Office Manager is responsible for:*
posting from journal to ledger	*posting to journal*
balancing ledger	*sorting invoices and paying bills*
bank reconciliation	*payroll and employee benefit records*
authorizing payments	*receiving payments and preparing deposits*
financial statements	*patient ledger*
revenue journal	*patient billing*

All checks require two signatures.
The Social Service Director is responsible for Patient Trust Funds.

DISPOSITION OF PRIOR YEAR FINDINGS

97-1 Segregation of Duties – repeated