

**OVERTON COUNTY NURSING HOME**

**LIVINGSTON, TENNESSEE**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2011**

## C O N T E N T S

### **INTRODUCTORY SECTION –**

|   |   |
|---|---|
| Board of Directors and Administrator..... | i |
|---|---|

### **FINANCIAL SECTION –**

|  |      |
|--|------|
| Independent Auditor's Report .....                                     | 1-2  |
| Statement of Net Assets .....  | 3    |
| Statement of Revenues, Expenses<br>and Changes in Fund Net Assets..... | 4    |
| Statement of Cash Flows.....   | 5    |
| Notes to Financial Statements.....                                     | 6-11 |

### **INTERNAL CONTROL AND COMPLIANCE SECTION –**

|  |       |
|--|-------|
| Independent Auditor's Report on Internal Control Over<br>Financial Reporting and on Compliance and Other Matters<br>Based on an Audit of Financial Statements Performed in<br>Accordance with <i>Government Auditing Standards</i> ..... | 12-13 |
| Schedule of Findings and Responses .....   | 14    |

**INTRODUCTORY SECTION**

**OVERTON COUNTY NURSING HOME**

**Livingston, Tennessee**

**Board of Directors and Administrator (unaudited)**

**June 30, 2011**

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Billie Phipps, Chairman

Randall Boswell, Vice Chairman

Gregg Nivens

Frank Martin

Darwin Clark

Jennifer Bouldin, Administrator

**FINANCIAL SECTION**



# JOB, HASTINGS & ASSOCIATES

*Certified Public Accountants*

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Donna K. Hastings, CPA, CSEP  
James R. Jobe, CPA  
Joel H. Jobe (1944 – 2006)

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Overton County Nursing Home  
Livingston, Tennessee

We have audited the accompanying statement of net assets of Overton County Nursing Home, a component unit of Overton County, Tennessee as of June 30, 2011, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of Overton 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Overton County Nursing Home, a component unit of Overton County, Tennessee, as of June 30, 2011, and the respective 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 26, 2011 on our consideration of Overton 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require that 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.

Board of Directors  
Overton County Nursing Home

Our audit was conducted for the purpose of forming an opinion on the financial statements of Overton County Nursing Home. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. It 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.

*Jobe, Hastings & Associates*

Certified Public Accountants

Murfreesboro, Tennessee  
August 26, 2011

**OVERTON COUNTY NURSING HOME**

**Livingston, Tennessee**

**Statement of Net Assets**

**June 30, 2011**

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| <u>ASSETS</u>   |   |
|---|---|
| Current Assets-   |   |
| Cash  | \$ 2,013,505                            |
| Certificates of deposit                                   | 1,403,767                               |
| Cash - patients' funds                                    | 36,359                                  |
| Patient accounts receivable, net of allowance of \$75,000 | 1,076,414                               |
| Accrued interest receivable                               | 12,182                                  |
| Estimated third-party payor settlements                   | 146,858                                 |
| Prepaid expense   | 1,000                                   |
|   | <u>TOTAL CURRENT ASSETS</u>             |
|   | \$ <u>4,690,085</u>                     |
| Property and Equipment-                                   |   |
| Land improvements   | \$ 102,708                              |
| Building and improvements                                 | 3,000,800                               |
| Transportation equipment                                  | 49,148                                  |
| Equipment   | 1,227,075                               |
|   | <u>4,379,731</u>                        |
| Less: Accumulated depreciation                            | <u>2,887,551</u>                        |
|   | \$ <u>1,492,180</u>                     |
| Land  | 56,500                                  |
|   | <u>1,548,680</u>                        |
|   | <u>TOTAL ASSETS</u>                     |
|   | \$ <u><u>6,238,765</u></u>              |
| <u>LIABILITIES</u>  |   |
| Current Liabilities-                                      |   |
| Accounts payable - trade                                  | \$ 223,101                              |
| Accrued salaries and wages payable                        | 175,230                                 |
| Accrued vacation  | 114,896                                 |
| Accrued payroll taxes and employee withholdings           | 33,298                                  |
| Patients' funds held in trust                             | 36,359                                  |
| Current portion of capitalized lease obligation           | 4,421                                   |
|   | <u>TOTAL CURRENT LIABILITIES</u>        |
|   | \$ 587,305                              |
| Long-term Liabilities -                                   |   |
| Capitalized lease obligation, less current portion        | 5,604                                   |
|   | <u>TOTAL LIABILITIES</u>                |
|   | \$ <u>592,909</u>                       |
| <u>NET ASSETS</u>   |   |
| Net Assets -  |   |
| Invested in capital assets, net of related debt           | \$ 1,538,655                            |
| Unrestricted net assets                                   | 4,107,201                               |
|   | <u>TOTAL NET ASSETS</u>                 |
|   | \$ <u>5,645,856</u>                     |
|   | <u>TOTAL LIABILITIES AND NET ASSETS</u> |
|   | \$ <u><u>6,238,765</u></u>              |

See notes to financial statements.

**OVERTON COUNTY NURSING HOME**

**Livingston, Tennessee**

**Statement of Revenues, Expenses and Changes in Fund Net Assets**

**For the Year Ended June 30, 2011**

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|                                    |                           |                            |
|------------------------------------|---------------------------|----------------------------|
| Operating Revenues -               |                           |                            |
| Net patient service revenue        | \$                        | 8,979,812                  |
| Other revenue                      |                           | 21,797                     |
|                                    | \$                        | <u>9,001,609</u>           |
| Operating Expenses -               |                           |                            |
| Medical and nursing services       | \$                        | 2,943,816                  |
| Dietary services                   |                           | 991,218                    |
| Employee benefits                  |                           | 822,597                    |
| Therapy and ancillary services     |                           | 797,913                    |
| Administrative and general         |                           | 555,067                    |
| Plant operation and maintenance    |                           | 505,778                    |
| Bed license fees                   |                           | 356,000                    |
| Housekeeping services              |                           | 236,182                    |
| Laundry and linen                  |                           | 207,573                    |
| Depreciation                       |                           | 138,269                    |
| Recreational activities            |                           | 98,567                     |
| Medical records                    |                           | 59,075                     |
| Social services                    |                           | 37,171                     |
| Other operating expenses           |                           | 17,737                     |
|                                    | \$                        | <u>7,766,963</u>           |
|                                    |                           |                            |
|                                    | OPERATING INCOME          | \$ <u>1,234,646</u>        |
|                                    |                           |                            |
| Nonoperating Revenues (Expenses) - |                           |                            |
| Interest income                    | \$                        | 17,723                     |
| Loss on disposal of capital assets |                           | (101)                      |
| Interest expense                   |                           | (1,838)                    |
|                                    | \$                        | <u>15,784</u>              |
|                                    |                           |                            |
|                                    | CHANGE IN NET ASSETS      | \$ 1,250,430               |
|                                    |                           |                            |
| Net Assets at Beginning of Year    |                           | <u>4,395,426</u>           |
|                                    | NET ASSETS AT END OF YEAR | \$ <u><u>5,645,856</u></u> |

See notes to financial statements.

**OVERTON COUNTY NURSING HOME**

**Livingston, Tennessee**

**Statement of Cash Flows**

**For the Year Ended June 30, 2011**

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|  |                      |                     |
|--|----------------------|---------------------|
| Cash Flows from Operating Activities -   |                      |                     |
| Received from residents and third-party payors   | \$ 9,138,600         |                     |
| Received from others   | 21,797               |                     |
| Paid to suppliers for goods and services   | (3,744,939)          |                     |
| Paid to employees for services   | (3,859,729)          |                     |
| NET CASH PROVIDED BY OPERATING ACTIVITIES  | <u>\$ 1,555,729</u>  |                     |
| Cash Flows from Capital and Related Financing Activities -                               |                      |                     |
| Purchase of property and equipment   | \$ (236,052)         |                     |
| Disbursements for construction in progress   | (100,602)            |                     |
| Payments on capitalized lease obligation   | (3,803)              |                     |
| Interest paid on capitalized lease obligation  | (1,838)              |                     |
| NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES                               | <u>\$ (342,295)</u>  |                     |
| Cash Flows from Investing Activities -   |                      |                     |
| Interest earned  | \$ 3,236             |                     |
| NET CASH PROVIDED BY INVESTING ACTIVITIES  | <u>\$ 3,236</u>      |                     |
|  | NET INCREASE IN CASH | \$ 1,216,670        |
| Cash and cash equivalents July 1, 2010   |                      | 796,835             |
|  | CASH JUNE 30, 2011   | <u>\$ 2,013,505</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities -        |                      |                     |
| Operating income   | \$ 1,234,646         |                     |
| Adjustments to reconcile operating income to net cash provided by operating activities - |                      |                     |
| Depreciation   | 138,269              |                     |
| Provision for bad debts  | 123,881              |                     |
| Changes in assets and liabilities -  |                      |                     |
| Decrease in patient accounts receivable  | 185,947              |                     |
| Increase in estimated third-party payor settlements                                      | (151,040)            |                     |
| Decrease in accounts payable-trade   | (3,840)              |                     |
| Increase in accrued salaries and wages payable   | 27,956               |                     |
| Decrease in accrued vacation   | (3,270)              |                     |
| Increase in accrued payroll taxes and employee withholdings                              | 3,180                |                     |
| NET CASH PROVIDED BY OPERATING ACTIVITIES  | <u>\$ 1,555,729</u>  |                     |
| Non Cash Investing, Capital, and Financing Activities -                                  |                      |                     |
| Interest earnings added to certificate of deposit  | \$ 18,442            |                     |

See notes to financial statements.

## OVERTON COUNTY NURSING HOME

Livingston, Tennessee

### Notes to Financial Statements

June 30, 2011

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#### Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Overton County Nursing Home (the Nursing Home) is presented to assist in understanding the Nursing Home's financial statements. The financial statements and notes are representations of the Nursing Home's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles.

Organization - Overton County Nursing Home is a non-profit corporation chartered under the laws of the State of Tennessee on April 5, 1962, operating as a political subdivision of Overton County, Tennessee (the County). The purpose of the Nursing Home is to provide nursing care to residents primarily from the Overton County area. The corporation is managed by a board of five directors who are county commissioners, appointed by the County Commission of Overton County, Tennessee.

Financial Reporting Entity – Component Unit - As specified and described by Standard 14 of the Governmental Accounting Standards Board (GASB); the Nursing Home is a component unit of the primary government of Overton County, Tennessee. The Nursing Home reports its financial information separately from Overton County; however, the County in its financial report also presents the Nursing Home's financial information.

Legally, the Nursing Home is a separate nonprofit entity that has considerable legal, financial and administrative autonomy. However, as the governing board is not elected but instead is entirely appointed by the County's board of Commissioners, the Nursing Home cannot be a primary government. Instead it qualifies as a component unit according to the directives of GASB.

GASB 14 specifies that component units must be legally separate organizations which have financial accountability to a primary government. Financial accountability exists prima facie if a special-purpose government is not fiscally independent. GASB states that to be fiscally independent, the government has to have the authority to do all of three activities. One of these activities is to issue bonded debt without approval by another government. Overton County Nursing Home may not issue debt without Overton County, Tennessee's approval and the County remains contingently liable for all debt obligations. Because the Nursing Home is both a legal entity and financially accountable to the primary government of Overton County as the County Commission appoints all members of the governing board and by the nature of its fiscal dependence on Overton County as described above, it is a component unit of Overton County, Tennessee.

At June 30, 2011, there were no related receivables or payables between Overton County and the Nursing Home. The Nursing Home did not engage in any activities that were subject to the approval of Overton County.

Basis of Presentation - The financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Nursing Home has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting*, to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

As a component unit of Overton County, the accounts of the Nursing Home are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Nursing Home's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured by a pledge of the net revenues from fees and charges of the activity, or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

**OVERTON COUNTY NURSING HOME**

**Livingston, Tennessee**

**Notes to Financial Statements (continued)**

**June 30, 2011**

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Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting and financial reporting treatment applied to the Nursing Home is determined by its measurement focus. The transactions of the Nursing Home are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e. total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Cash Flow - Cash and Cash Equivalents - Overton County Nursing Home presents its cash flow statement using the direct method. For purposes of cash flow presentation, the Nursing Home considers cash in operating bank accounts, cash on hand, and certificates of deposit, which have original maturities of three months or less as cash and cash equivalents. At June 30, 2011, there were no certificates of deposit that qualified as cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable are stated at the amount that the Nursing Home expects to collect from outstanding balances. The Nursing Home provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based upon a review of outstanding receivables, historical collection information and existing economic conditions. The allowance for doubtful accounts was \$75,000 at June 30, 2011. Account balances are charged against the allowance after reasonable collection efforts have been exhausted and the potential for recovery is considered remote.

Net Patient Revenue - Gross patient revenue is recorded on an accrual basis based on services rendered at amounts equal to established rates. Allowances for contractual adjustments are recorded for the differences between established rates and amounts estimated to be paid by the Medicare and Medicaid programs and other third party payors. Contractual adjustments are deducted from gross patient revenue to determine net patient revenue. Amounts paid under the Medicare and Medicaid programs are generally based on fixed rates per patient day, adjusted prospectively. All amounts earned under the Medicare, Medicaid, and other governmental programs are subject to review by the third party payors. Any differences between estimated settlements and final determinations are reflected in operations in the year finalized.

Property and Equipment - Property and equipment are stated at cost. Purchases in excess of \$1,000 are capitalized. For financial statement purposes, depreciation of property and equipment is provided using the straight-line method. The Nursing Home estimates the useful lives of the respective classes of plant and equipment as follows:

|                           |            |
|---------------------------|------------|
| Land improvements         | 5-20 years |
| Building and improvements | 5-50 years |
| Transportation equipment  | 4-5 years  |
| Equipment                 | 3-25 years |

Maintenance and repairs are charged to operations when incurred. The Nursing Home eliminates the costs and related allowances from the accounts for properties sold or retired, and any resulting gains or losses are included in income.

Accrued Vacation - Nursing Home employees earn vacation by prescribed formula based on length of service. The Nursing Home accrues vacation pay when earned.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**OVERTON COUNTY NURSING HOME**

**Livingston, Tennessee**

**Notes to Financial Statements (continued)**

**June 30, 2011**

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Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes – The Internal Revenue Service has determined that the Nursing Home is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes. However, see Note K for details regarding this exemption.

Operating Revenues and Expenses – The Nursing Home’s operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its principal ongoing operations. All other revenues and expenses are reported as non-operating revenues and expenses and consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Subsequent Events - Management has evaluated subsequent events through August 26, 2011, the date the financial statements were available to be issued.

Note B – CASH AND CERTIFICATES OF DEPOSIT

The Nursing Home is authorized to make investments in bonds, notes or treasury bills of the United States, Federal Loan Bank bonds, Federal Home Loan Bank notes and bonds, Federal National Mortgage Association notes and debentures, banks or cooperative debentures, or any of its other agencies, or obligations guaranteed as to principal and interest by the United States or any of its agencies with a maturity not greater than one year, or in the pooled investment fund established under Tennessee law.

During the year ended June 30, 2011, the board of directors chose to limit the investment of funds to demand deposits and certificates of deposit accounts at banking institutions.

At June 30, 2011, the carrying amount of cash deposits, including patient funds, was \$2,049,665 and the bank balance was \$2,087,426. At June 30, 2011, the carrying amount of the certificate of deposit was \$1,403,767 and the bank balance was \$1,403,767. At June 30, 2011, the entire bank balance was covered by federal depository insurance, or pledged securities held as collateral in another institution in the name of the Nursing Home.

Note C - PATIENT FUNDS HELD IN TRUST

At June 30, 2011, the Nursing Home held funds in the amount of \$36,359 on behalf of the residents.

The Nursing Home is required to maintain a cash account as a depository for patient funds. The fund is restricted in use and can be used only for providing spending money for patients, purchasing supplies for patients with cash in the fund, or paying amounts due to the Nursing Home for patient care, provided the amount does not include monies stipulated for patients' use only. All funds in excess of \$100 per recipient are required to be placed in an insured interest-bearing account.

Note D - CONCENTRATION OF CREDIT RISK

The Nursing Home grants credits without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from patients and third-party payors are as follows:

|           |         |
|-----------|---------|
| Medicare  | 42.21 % |
| Medicaid  | 35.43 % |
| Insurance | 17.75 % |
| Private   | 4.61 %  |

**OVERTON COUNTY NURSING HOME**

**Livingston, Tennessee**

**Notes to Financial Statements (continued)**

**June 30, 2011**

Note E – CAPITAL ASSETS

Capital assets are summarized as follows:

|   | <u>July 1,</u><br><u>2010</u> | <u>Additions</u>    | <u>Deletions</u>  | <u>June 30,</u><br><u>2011</u> |
|---|-------------------------------|---------------------|-------------------|--------------------------------|
| Capital assets, not being depreciated - |                               |                     |                   |                                |
| Land                                    | \$ 56,500                     |                     |                   | \$ 56,500                      |
| Construction in progress                | 142,239                       | \$ 100,602          | \$ 242,841        |                                |
| Subtotal                                | <u>\$ 198,739</u>             | <u>\$ 100,602</u>   | <u>\$ 242,841</u> | <u>\$ 56,500</u>               |
| Capital assets, being depreciated -     |                               |                     |                   |                                |
| Land improvements                       | \$ 96,508                     | \$ 6,200            |                   | \$ 102,708                     |
| Building and improvements               | 2,630,441                     | 395,352             | \$ 24,993         | 3,000,800                      |
| Transportation equipment                | 27,600                        | 21,548              |                   | 49,148                         |
| Equipment                               | 1,220,655                     | 55,792              | 49,372            | 1,227,075                      |
| Subtotal                                | <u>\$ 3,975,204</u>           | <u>\$ 478,892</u>   | <u>\$ 74,365</u>  | <u>\$ 4,379,731</u>            |
| Less accumulated depreciation -         |                               |                     |                   |                                |
| Land improvements                       | \$ (32,884)                   | \$ (5,328)          |                   | \$ (38,212)                    |
| Building and improvements               | (1,762,765)                   | (87,553)            | \$ 24,892         | (1,825,426)                    |
| Transportation equipment                | (24,190)                      | (5,729)             |                   | (29,919)                       |
| Equipment                               | (1,003,708)                   | (39,658)            | 49,372            | (993,994)                      |
| Subtotal                                | <u>\$ (2,823,547)</u>         | <u>\$ (138,268)</u> | <u>\$ 74,264</u>  | <u>\$ (2,887,551)</u>          |
| Capital assets, being depreciated net   | <u>\$ 1,151,657</u>           | <u>\$ 340,624</u>   | <u>\$ 101</u>     | <u>\$ 1,492,180</u>            |
| Total capital assets, net               | <u>\$ 1,350,396</u>           | <u>\$ 441,226</u>   | <u>\$ 242,942</u> | <u>\$ 1,548,680</u>            |

Note F - PENSION PLAN

**Plan Description** - Employees of Overton County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The retirement plan for Overton County Nursing Home is included in the total retirement program for Overton County. Therefore, separate retirement information for the Nursing Home is not available. Details relative to the funding status and progress, actuarially determined contribution requirements and contribution made, and trend information regarding the retirement plan can be found in the Comprehensive Annual Financial Report for Overton County. Total contributions to the plan by the Nursing Home for the year ended June 30, 2011 amounted to \$141,085.

The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Overton County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. Overton County requires employees to contribute 5.0 percent of earnable compensation and the County is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2011 was 5.46% of annual covered payroll. The contribution requirement of plan

**VERTON COUNTY NURSING HOME**

**Livingston, Tennessee**

**Notes to Financial Statements (continued)**

**June 30, 2011**

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Note F - PENSION PLAN (continued)

members is set by state statute. The contribution requirement for Overton County is established and may be amended by the TCRS Board of Trustees.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Note G - RISK MANAGEMENT

Risks related to the operation of the nursing home are managed through the purchase of commercial insurance policies. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage for the current year or for the prior five years.

Note H - HEALTH CARE REGULATIONS

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes that the Nursing Home is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Note I - PROFESSIONAL LIABILITY CLAIMS AND INSURANCE

The long-term health care industry has experienced a dramatic increase in personal injury and wrongful death claims based on alleged negligence by nursing homes and their employees in providing care to residents. The Nursing Home is subject to claims and suits which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings has been adequately provided for through commercial insurance.

Note J – CAPITAL LEASE OBLIGATION

The Nursing Home entered into a capital lease agreement for the purchase of equipment during the year ended June 30, 2009. The lease term expires in July 2013. The asset and liability were recorded at the fair value of the asset. The asset was capitalized in the amount of \$19,695 and accumulated amortization related to this asset was \$3,939 at June 30, 2011. This amortization expense of \$1,313 was included in depreciation expense. The lease is payable to Marlin Leasing Corporation and is secured by the equipment purchased. Payments are \$470.11 per month, including principal and interest at 15.151% imputed fixed annual rate. The future minimum lease payments due under the capital lease are as follows:

| Year Ending<br>June 30 | Future<br>Minimum<br>Lease<br>Payments | Less<br>Amount<br>Representing<br>Interest | Principal<br>Portion |
|------------------------|--|--|----------------------|
| 2012                   | \$ 5,641                               | \$ 1,220                                   | \$ 4,421             |
| 2013                   | 5,642                                  | 502  | 5,140                |
| 2014                   | 470                                    | 6  | 464                  |
|                        | <u>\$ 11,753</u>                       | <u>\$ 1,728</u>                            | <u>\$ 10,025</u>     |

**OVERTON COUNTY NURSING HOME**

**Livingston, Tennessee**

**Notes to Financial Statements (continued)**

**June 30, 2011**

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Note J – CAPITAL LEASE OBLIGATION (continued)

Activity related to the capital lease obligation for the year ended June 30, 2011, was as follows:

| Balance<br>July 1, 2010 | Additions | Deductions | Balance<br>June 30, 2011 | Due Within<br>One Year |
|-------------------------|-----------|------------|--------------------------|------------------------|
| \$ 13,828               |           | \$ 3,803   | \$ 10,025                | \$ 4,421               |

Note K – CONTINGENCIES

The Nursing Home received an Internal Revenue Service (IRS) notice dated July 18, 2011 stating its tax-exempt status under Internal Revenue Code Section 501(c)(3) had been revoked effective November 15, 2010. The revocation occurred automatically as required by law due to the organization's failure to file the appropriate federal income tax return for three consecutive years.

In several private letter rulings, the IRS has ruled that the income of a corporation formed by a county in certain cases has been considered exempt from federal income tax under Section 115 of the Internal Revenue Code. Therefore, it is conceivable that exempt status would be in effect under Section 115 and that exempt status under 501(c)(3) would be redundant. However, management feels that it is a prudent course of action to reinstate the status under Section 501(c)(3). In order to reinstate its tax-exempt status, the Nursing Home is in the process of completing the Application for Recognition of Exemption under Section 501(c)(3). Management expects approval of this application as well as the reinstatement of its tax-exempt status retroactive from the date it was revoked.

**INTERNAL CONTROL AND COMPLIANCE SECTION**



# JOB, HASTINGS & ASSOCIATES

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Joel H. Jobe (1944 – 2006)

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**INDEPENDENT AUDITOR'S 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  
Overton County Nursing Home  
Livingston, Tennessee

We have audited the financial statements of Overton County Nursing Home, a component unit of Overton County, Tennessee, as of and for the year ended June 30, 2011, and have issued our report thereon dated August 26, 2011. 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 Overton 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 Overton County Nursing Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Overton County 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 combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting. (2011-1) 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.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Overton 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 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*.

Board of Directors  
Overton County Nursing Home

Overton County Nursing Home's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Overton County 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 of Overton County Nursing Home, management, state and federal audit agencies, others within the entity, and Overton County, Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

*Jobe, Hastings & Associates*

Certified Public Accountants

Murfreesboro, Tennessee  
August 26, 2011

**OVERTON COUNTY NURSING HOME**

**Schedule of Findings and Responses**

**Year Ended June 30, 2011**

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**FINDING – FINANCIAL STATEMENTS AUDIT**

SIGNIFICANT DEFICIENCY

**2011-1. Authorization for purchases and approval for payment of invoices**

*Condition:* The Center's policy for the authorization of purchases and approval for payment of invoices is not being consistently applied. The Center requires signed purchase requisitions for all purchases as well as the use of a purchase order. The purchase requisitions are to be approved by the controller or the administrator prior to the purchase. Several invoices did not have the approved purchase requisition and purchase order attached. Also, several invoices were examined which did not indicate the approval for payment by the administrator.

*Criteria:* The Center's policy for the authorization of purchases and approval for payment of invoices should be consistently applied.

*Effect:* Unauthorized purchases could occur and invoices could be paid in error if the Center's authorization and approval policy is not followed or enforced.

*Recommendation:* The Center should communicate to all department heads or purchasing agent the policy of the Center regarding the purchase of goods or services. The accounts payable clerk should verify that proper approval for the purchase is attached and that all invoices are approved by the administrator prior to payment.

*Response:* All department heads and purchasing agents have been in-serviced regarding the proper procedure involved when making purchases for Overton County Nursing Home. The department heads or purchasing agents understand that signed purchase requisitions as well as signed purchase orders are required prior to purchase. The purchase requisitions must be approved by the controller or administrator. The accounts payable clerk has been in-serviced regarding approval of invoices for payment. The accounts payable clerk understands that the accounts payable clerk should verify that proper approvals have been obtained prior to processing an invoice and that the administrator must approve all invoices before payment can be made.