

# PARK REST HARDIN COUNTY HEALTH CENTER

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

**PARK REST HARDIN COUNTY HEALTH CENTER  
 SAVANNAH, TENNESSEE  
 INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS  
 JUNE 30, 2012**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Introductory Section</b>	
Table of Contents . . . . .	. 1
Roster of Publicly Elected Officials and Management Officials . . . . .	. 2
<b>Management's Discussion and Analysis</b> . . . . .	<b>3 - 4</b>
<b>Financial Section</b>	
Independent Auditors' Report . . . . .	. 5
Statement of Net Assets . . . . .	. 6
Statement of Revenues, Expenses, and Changes in Net Assets . . . . .	. 7
Statement of Cash Flows . . . . .	. 8
Notes to the Financial Statements . . . . .	9 - 13
<b>Supplemental Information</b>	
Schedule of Operating Expenses . . . . .	14 - 15
<b>Compliance and Internal Control Report</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> . . . . .	16 - 18

**PARK REST HARDIN COUNTY HEALTH CENTER  
ROSTER OF PUBLICLY ELECTED OFFICIALS AND MANAGEMENT OFFICIALS  
JUNE 30, 2012**

**COUNTY COMMISSION**

*Gary Combs	Fred McFalls, Jr.
Adam Coleman	Darren Howard
*David Childers	Roger L. Jenkins
Vicky Cotner	Charles Holloway
*David Channell	Jimmy Grisham
Boyce Bain	*Nickie L. Cagle
Mike Jerrolds	Jonas Morris
*Wally Hamilton	Thomas Smith
Larry Byrd	*Emery White
James S. Berry, Jr.	*Mike Fowler

**MANAGEMENT OFFICIALS**

Jo Park	Manager
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\*Member of nursing home committee

**PARK REST HARDIN COUNTY HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

Our discussion and analysis of Park Rest Hardin County Health Center's (Park Rest) financial performance will offer readers of Park Rest's financial statements a narrative overview and review of the financial activities of Park Rest for the fiscal year ended June 30, 2012. Readers are encouraged to consider the information presented here in conjunction with Park Rest's financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 6 through 7) provide information about the activities of Park Rest's finances.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in Park Rest's financial statements. The notes to the financial statements can be found on pages 9 - 13.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents supplementary information. Supplemental information concerning Park Rest provides schedules detailing operating expenses and the changes in capital assets. This other supplemental information can be found on pages 14 – 16 of this report.

**Comparative Data**

**Statement of Net Assets**

	June 30, 2012	Percent of Total	June 30, 2011	Percent of Total
Current and other assets	\$ 992,687	67.07%	\$ 465,212	47.14%
Capital assets	487,479	32.93%	521,621	52.86%
Total assets	<u>1,480,166</u>	<u>100.00%</u>	<u>986,833</u>	<u>100.00%</u>
Current liabilities	995,404	100.00%	1,018,938	100.00%
Total liabilities	<u>995,404</u>	<u>100.00%</u>	<u>1,018,938</u>	<u>100.00%</u>
Net assets				
Invested in capital assets	487,479	100.56%	521,621	-1624.73%
Unrestricted (deficit)	(2,717)	-0.56%	(553,726)	1724.73%
Total net assets (deficit)	<u>\$ 484,762</u>	<u>100.00%</u>	<u>\$ (32,105)</u>	<u>100.00%</u>

**PARK REST HARDIN COUNTY HEALTH CENTER  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2012**

The changes in Park Rest's net assets are described below:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<b>Revenues</b>		
Operating revenues	\$ 2,723,773	\$ 2,681,638
<b>Expenses</b>		
Operating expenses	2,646,260	2,649,292
<b>Operating income (loss)</b>	77,513	32,346
<b>Nonoperating revenue (expenses)</b>	1,581	539
<b>Change in net assets</b>	79,094	32,885
<b>Net assets (deficit) - beginning, as originally stated</b>	(32,105)	(64,990)
<b>Prior period adjustment</b>	437,773	-
<b>Net assets - beginning, as restated</b>	405,668	(64,990)
<b>Net assets - end of year</b>	\$ 484,762	\$ (32,105)

Park Rest had a profit of \$79,094 in the current year, compared to the prior year profit of \$32,346. The current year increase in profit was due to increased operating revenues. Additionally, a prior period adjustment was made in the current year to restate related party transactions at cost instead of marked up amounts. Additional information on related party transactions is in Note 3.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 2012, Park Rest had \$487,479 invested in capital assets, including land, buildings and improvements, furniture and fixtures, and equipment. Capital assets (before accumulated depreciation) increased in the current year by \$18,360. Accumulated depreciation increased by \$52,503 (current year depreciation). Additional information on capital assets is in Note 9.

**Debt**

At year-end, Park Rest had no debt.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, investors and creditors with a general overview of Park Rest's finances and to show it's accountability for the money it receives. If you have any questions about this report or need additional information, contact Park Rest at 85 Shelby Drive, Savannah, Tennessee.

Jo Park  
Director

## INDEPENDENT AUDITORS' REPORT

Park Rest Hardin County Health Center  
Savannah, Tennessee

We have audited the accompanying financial statements of Park Rest Hardin County Health Center, a department of Hardin County, Tennessee, as listed in the table of contents, as of and for the year ended June 30, 2012. These financial statements are the responsibility of Park Rest Hardin County Health Center'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 *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 of Park Rest Hardin County Health Center are intended to present the financial position, result of operations, and cash flows of proprietary fund types of only that portion of the financial reporting entity of Hardin County, Tennessee, that is attributable to the transactions of Park Rest Hardin County Health Center. They do not purport to, and do not, present fairly the financial position of Hardin County, Tennessee, as of June 30, 2012, and the changes in its financial position, or, where applicable, its cash flow for the years then ended 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 Park Rest Hardin County Health Center as of June 30, 2012, and the result of its operations and its cash flows thereof 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 our report dated December 11, 2012, on our consideration of Park Rest Hardin County Health Center'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Park Rest Hardin County Health Center's financial statements. The introductory and supplemental information sections are presented for purposes of additional analysis and are not a required part of 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 taken as a whole. The introductory and supplemental information sections have 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 them.

December 11, 2012

*Adwin & Associates, PLLC*

**PARK REST HARDIN COUNTY HEALTH CENTER  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 282,350
Accounts receivable, net of allowance for doubtful accounts of \$29,458 (29,458 in 2011)	180,517
Due from Hardin Home	493,222
Due from J. Park and Sons, Inc.	7,456
Inventory	5,202
Prepaid expenses	16,135
<b>TOTAL CURRENT ASSETS</b>	<b>984,882</b>

**CAPITAL ASSETS**

Land	26,700
Building and improvements	1,148,001
Furniture and fixtures	85,517
Equipment	341,769
	1,601,987
Less: accumulated depreciation	1,114,508
<b>NET CAPITAL ASSETS</b>	<b>487,479</b>

**OTHER ASSETS**

Trust funds	7,805
	<u>7,805</u>

**TOTAL ASSETS**

**\$ 1,480,166**

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 35,037
Accrued management fee - Jo Park	812,385
Other accrued expenses	140,177
Trust funds	7,805
<b>TOTAL CURRENT LIABILITIES</b>	<b>995,404</b>

**NET ASSETS**

Invested in capital assets	487,479
Unrestricted (deficit)	(2,717)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>484,762</b>

**TOTAL LIABILITIES AND NET ASSETS**

**\$ 1,480,166**

**PARK REST HARDIN COUNTY HEALTH CENTER  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2012**

<b>OPERATING REVENUES</b>	
Patient revenues	<u>\$ 2,723,773</u>
<b>OPERATING EXPENSES</b>	
Administrative	961,159
Dietary	280,499
Housekeeping	113,462
Laundry	92,417
Operation and maintenance	173,656
Nursing	918,128
Social service	54,437
Depreciation	52,502
<b>TOTAL OPERATING EXPENSES</b>	<u>2,646,260</u>
<b>NET OPERATING INCOME</b>	<u>77,513</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>	
Interest revenue	400
Other (net)	1,181
<b>NONOPERATING REVENUE (EXPENSE) - NET</b>	<u>1,581</u>
<b>INCREASE IN NET ASSETS</b>	<u>79,094</u>
<b>NET ASSETS (DEFICIT) - BEGINNING, AS ORIGINALLY STATED</b>	(32,105)
<b>PRIOR PERIOD ADJUSTMENT</b>	<u>437,773</u>
<b>NET ASSETS - BEGINNING, AS RESTATED</b>	405,668
<b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 484,762</u></u>

**PARK REST HARDIN COUNTY HEALTH CENTER  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from patient services	\$ 2,707,923
Payments to suppliers	(972,831)
Payments to employees	(1,704,921)
Other operating cash receipts	<u>1,181</u>

**CASH PROVIDED BY OPERATING ACTIVITIES** 31,352

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	<u>(18,360)</u>
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**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income	<u>400</u>
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**NET INCREASE IN CASH** 13,392

**CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR** 268,958

**CASH AND CASH EQUIVALENTS - END OF YEAR** \$ 282,350

**RECONCILIATION OF OPERATING REVENUE TO  
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 77,513
Adjustments to derive cash effect:	
Depreciation	52,502
Accounts receivable	(15,850)
Prepaid insurance	6,374
Accounts payable	6,658
Accrued management fee	(77,375)
Accrued expenses	(19,651)
Other revenue	<u>1,181</u>

**CASH PROVIDED BY OPERATING ACTIVITIES** \$ 31,352

**PARK REST HARDIN COUNTY HEALTH CENTER  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 1: GENERAL INFORMATION**

**General**

Park Rest Hardin County Health Center (Park Rest) is a 62-bed intermediate care facility owned by Hardin County, Tennessee. Park Rest is located in Savannah, Tennessee, and began operations in 1986. Park Rest provides health care and services primarily to individuals in the Hardin County, Tennessee area who do not require the degree of care and treatment which a hospital or skilled nursing facility is designed to provide, but who, because of their mental or physical condition, require care and services which can be made available to them only through institutional facilities.

**Fund Accounting**

The accounts of Park Rest are organized on the basis of funds. The operations of funds are accounted for with a separate set of self-balancing accounts that comprise their assets, liabilities, fund equity, revenues, and expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The accounts in the financial statements in this report fall under one broad fund category as follows:

**Proprietary Funds**

Enterprise Funds – Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Reporting Entity**

Park Rest is a department of Hardin County, Tennessee. Park Rest is not a legally separate entity but the County Board of Commissioners is responsible for appointing each member of the nursing home committee, which oversees Park Rest's operations. In addition, nursing home revenues were the source of repayment for bonds issued to finance construction of the facility.

**PARK REST HARDIN COUNTY HEALTH CENTER**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements of Park Rest are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The following is a summary of the more significant accounting policies.

**Inventory**

Inventory is valued at the lower of cost (FIFO) or market, and consists entirely of supplies.

**Property and Equipment**

All capital assets are stated at historical cost. Depreciation expense is calculated principally by the straight-line method to allocate the costs of depreciable assets over their estimated useful lives. Maintenance and repairs which do not materially extend their useful lives are charged to expense as incurred.

**GASB Conformity**

The financial statements included herein are prepared in conformity with generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB). Park Rest applies Financial Accounting Standards Board (FASB) pronouncements, Accounting Principles Board (APB) Opinions, and Committee on Accounting Procedure (CAP) Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. GASB Statement Nos. 20 and 34 provide the option of electing to apply FASB pronouncements issued after November 30, 1989. Park Rest has elected not to apply those pronouncements.

**Cash and cash equivalents**

Cash and cash equivalents, as used in the Statement of Cash Flows, includes demand deposit accounts and certificates of deposit with maturities of three months or less when purchased, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 9.

**PARK REST HARDIN COUNTY HEALTH CENTER  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**Operating revenues / expenses**

Proprietary funds distinguish operating revenues from non-operating items. Operating revenues and expenses generally result from providing services in connection with the nursing home's principal ongoing operations. The principal operating revenues of Park Rest are charges for patient services. Operating expenses include salaries and wages of employees, administrative expenses, and depreciation on capital assets.

**NOTE 3: RELATED PARTY TRANSACTIONS**

During the year Hardin Home (a nursing home facility owned by the manager of Park Rest) provided Park Rest with laundry services. The charges for the laundry services approximated Hardin Home's recorded costs of providing the services. The total laundry charges for the year were \$92,417.

Park Rest prepared meals for residents of Hardin Home. The charges for the meals approximated Park Rest's recorded costs of providing the meals. The dietary charges for the year totaled \$183,866.

Some employees work for both facilities and each facility is responsible for its share of applicable payroll expenses.

In prior years, the County contracted with Jo Park to manage Park Rest. In 2007 and years subsequent, the County has contracted with J. Park & Sons, Inc. (owned by Jo Park) to manage Park Rest. The management fee is seven percent of the gross revenues received by the facility from all sources and equaled \$189,074 in 2012. According to corporate records, the accrued management fee recorded at year-end is due solely to Jo Park for services performed prior to 2007.

Park Rest is responsible to pay the County a monthly administrative fee equal to one percent of gross revenues. For 2012, that fee equaled \$27,152.

**NOTE 4: RISK MANAGEMENT**

Park Rest is subject to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Commercial insurance is carried for employees' bonds, personal and professional liability, and property destruction. There have been no significant reductions in insurance coverage. Settled claims have not exceeded insurance coverage for any of the past three fiscal years.

**PARK REST HARDIN COUNTY HEALTH CENTER  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 5: CUSTODIAL CREDIT RISK - DEPOSITS**

Park Rest's investment policies are governed by State statute. Included in permissible investments are direct obligations of the U.S. Government and agency securities, certificates of deposit and savings accounts.

For deposits, custodial credit risk is the risk that, in the event of a bank failure, deposits may not be returned. Park Rest does not have a policy regarding custodial credit risk for deposits. Collateral is required for demand deposits and certificates of deposit at 105% of all amounts not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State of Tennessee and its subdivisions.

As of June 30, 2012, Park Rest's deposits at year-end were not exposed to custodial credit risk due to being entirely covered by federal depository insurance.

**NOTE 6: CONCENTRATIONS OF CREDIT RISK**

Approximately 98% of the patients in Park Rest participate in the Medicaid program. As a result, a portion of their care is paid for by the State of Tennessee. Approximately 84% of the accounts receivable balance at June 30, 2012, was due from the State of Tennessee under the Medicaid program.

**NOTE 7: COMPENSATED ABSENCES**

Each employee earns one week of vacation after one year of employment and two weeks of vacation after ten years of employment. An employee is paid for accrued vacation only if the employee is laid off. Unused accrued vacation is forfeited by the employee at the end of each calendar year.

**NOTE 8: TRUST FUNDS**

Trust funds, as used in the Statement of Net Assets, represents patients' funds held by the nursing home in trust for the patients and can only be used upon the patients' approval.

**PARK REST HARDIN COUNTY HEALTH CENTER  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 9: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012, was as follows:

	<u>Balance 7/1/2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/2012</u>
Capital assets not being depreciated:				
Land	\$ 26,700	\$ -	\$ -	\$ 26,700
Capital assets being depreciated:				
Buildings and improvements	1,148,001	-	-	1,148,001
Furniture and fixtures	85,517	-	-	85,517
Equipment	323,409	18,360	-	341,769
Total capital assets being depreciated	<u>1,556,927</u>	<u>18,360</u>	<u>-</u>	<u>1,575,287</u>
Less accumulated depreciation for:				
Buildings and improvements	(740,256)	(28,699)	-	(768,955)
Furniture and fixtures	(53,597)	(3,630)	-	(57,227)
Equipment	(268,152)	(20,174)	-	(288,326)
Total accumulated depreciation	<u>(1,062,005)</u>	<u>(52,503)</u>	<u>-</u>	<u>(1,114,508)</u>
Total capital assets being depreciated, net	<u>494,922</u>	<u>(34,143)</u>	<u>-</u>	<u>460,779</u>
Total capital assets, net	<u>\$ 521,622</u>	<u>\$ (34,143)</u>	<u>\$ -</u>	<u>\$ 487,479</u>

Fully depreciated assets at June 30, 2012, amounted to \$369,665.

**NOTE 10: ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 11: PRIOR PERIOD ADJUSTMENT**

For years Hardin Home (a nursing home facility owned by the manager of Park Rest) has provided Park Rest with laundry services. Hardin Home based the laundry charges on actual costs until 2003. From 2003 – 2011 Hardin Home charged Park Rest rates in excess of cost. Since Hardin Home has never had a written contract with Hardin County regarding these related party transactions, a prior period adjustment of \$428,444 has been made in the current year to adjust these services to cost.

Additionally, Park Rest prepared meals for residents of Hardin Home. The charges for the meals approximated Park Rest's costs of providing the meals until 2006. Park Rest has charged Hardin Home \$156,000 annually from 2006-2011 for dietary services provided. Since Hardin Home has never had a written contract with Hardin County regarding these related party transactions, a prior period adjustment of \$9,329 has been made in the current year to adjust these services to cost.

**PARK REST HARDIN COUNTY HEALTH CENTER  
SCHEDULE OF OPERATING EXPENSES  
YEAR ENDED JUNE 30, 2012**

**ADMINISTRATIVE**

Salaries	\$ 176,556
Payroll taxes	108,542
Office supplies	32,475
Telephone	17,367
Nursing home license fee	138,934
Employee benefits	130,677
Insurance	117,112
Travel and conventions	2,447
Administrative fee	27,011
Management fee	189,074
Professional fees	15,722
Dues and subscriptions	5,242
<b>TOTAL ADMINISTRATIVE</b>	<u>961,159</u>

**DIETARY**

Salaries	221,631
Consultants	5,280
Food	212,492
Supplies	24,962
Reimbursements received	<u>(183,866)</u>
<b>TOTAL DIETARY</b>	<u>280,499</u>

**HOUSEKEEPING**

Salaries	101,476
Supplies	11,986
<b>TOTAL HOUSEKEEPING</b>	<u>113,462</u>

**LAUNDRY**

Services and supplies	92,417
<b>TOTAL LAUNDRY</b>	<u>92,417</u>

**PARK REST HARDIN COUNTY HEALTH CENTER  
SCHEDULES OF OPERATING EXPENSES (continued)  
YEAR ENDED JUNE 30, 2012**

<b>OPERATION AND MAINTENANCE</b>	
Salaries	\$ 73,460
Repairs	24,836
Utilities	75,360
<b>TOTAL OPERATION AND MAINTENANCE</b>	<u>173,656</u>
 <b>NURSING SERVICE</b>	
Salaries	839,156
Medicine and supplies	61,020
Consultants	17,952
<b>TOTAL NURSING SERVICE</b>	<u>918,128</u>
 <b>SOCIAL SERVICES</b>	
Salaries	53,323
Supplies	1,114
<b>TOTAL SOCIAL SERVICES</b>	<u>54,437</u>
 <b>DEPRECIATION</b>	
Buildings	24,977
Improvements other than buildings	3,721
Furniture and fixtures	3,630
Equipment	20,174
<b>TOTAL DEPRECIATION</b>	<u>52,502</u>
 <b>TOTAL OPERATING EXPENSES</b>	 <u><u>\$ 2,646,260</u></u>



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

Park Rest Hardin County Health Center  
Savannah, Tennessee

We have audited the financial statements of Park Rest Hardin County Health Center (Park Rest), a department of Hardin County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Park Rest is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Park Rest'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 Park Rest's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Park Rest's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified the following deficiencies in internal control over financial reporting that we consider to be material weaknesses.

**2012 – 01 GENERAL LEDGER MATERIALLY MISSTATED BEFORE ADJUSTMENTS**

The client's general ledger was materially misstated because personnel did not adjust accrued vacation at year-end. Also, certain related party transactions were recorded at inflated values instead of cost. Further, amounts due from related parties were netted against an accrued management fee account understating current assets and current liabilities. Therefore, material adjustments were required for the financial statements to be materially correct at year-end.

**RECOMMENDATION:** Account balances should be analyzed each month to ensure that accounts are properly stated.

**MANAGEMENT'S RESPONSE:**

- a) Accrued vacation payable amounted to \$23,622.00 and was given to the service that provides our un-audited financials. It is our understanding that booking a figure for accrued vacation was overstating liabilities on the general ledger. We agree that going forward there will not be an accrued vacation payable amount booked for Park Rest.
- b) Related party transactions will be addressed in 2012-02.

**2012 – 02 RELATED PARTY TRANSACTIONS WITHOUT CONTRACT**

Park Rest paid rates in excess of cost to Hardin Home (a nursing home facility owned by the manager of Park Rest) for laundry services. Additionally, Park Rest provided meals to Hardin Home and was reimbursed at rates below cost for these services. A written contract for these related party transactions has not been executed with Hardin County. Additionally, no written documentation was provided to support these transaction fees.

**RECOMMENDATION:** A written agreement or contract should be executed with Hardin County for related party services. Without such written agreement or contract, the reimbursement for related party transactions should be limited to cost of services.

**MANAGEMENT'S RESPONSE:**

- a) We met with the Nursing Home Committee from the Hardin County Court during December 2012, and agreed that there was no contract between Park Rest and Hardin Home for the sharing of dietary and laundry services. Going forward we agreed to allocate those services between facilities at cost.
- b) For the year 2013 and going forward, we will allocate costs between facilities based on the actual expenses from prior year and adjust to actual at the end of each year. Also, we agreed to segregate accrued management fees from other related party transactions.

**2012 – 03 DISBURSEMENTS LACKED PROPER SUPPORT**

Gift cards were purchased from Wal-Mart for \$4,700. Since the gift cards were not signed for by recipients we were unable to determine the recipients of these cards.

**RECOMMENDATION:** Proper support should be obtained and retained before disbursements are issued. Gift cards should be signed for by recipients.

**MANAGEMENT'S RESPONSE:** a) Gift cards in the amount of \$4,700.00 were purchased at Wal-Mart and given to employees as Christmas Bonuses. This has been a standard practice for several years. Going forward this will be corrected and all employees receiving Christmas bonuses via Wal-Mart gift cards will be listed on the receipt and that amount will be shown on the employees W-2.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiencies described above to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Park Rest'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 the following instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

#### **2012 – 04 EMPLOYEE CHRISTMAS BONUSES NOT TAXED**

Gift cards were given to employees as Christmas bonuses. These amounts were not reported on employees' W-2s.

**RECOMMENDATION:** Gifts cards should be reported on W-2s to comply with IRS regulations.

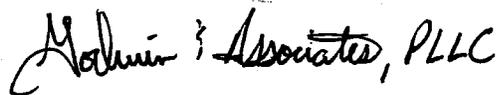
**MANAGEMENT'S RESPONSE:** a) Please refer to the 2012-03 statement. All Wal-Mart Christmas bonus gift cards will be accounted for and shown on the respective employee's W-2 form.

#### **DISPOSITION OF PRIOR YEAR FINDINGS**

None.

Park Rest's responses to the findings identified in our audit are described above. We did not audit Park Rest's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, County board of commissioners, 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.



December 11, 2012