

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Financial Statements and Supplemental Schedules

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Jefferson County Nursing Home
Dandridge, Tennessee

We have audited the accompanying statements of net assets of Jefferson County Nursing Home (Nursing Home), a component unit of Jefferson County, Tennessee, as of June 30, 2012 and 2011, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Nursing Home's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson County Nursing Home as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years 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 October 9, 2012 on our consideration of the 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 2012 audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 - 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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.

Raffinere Black Morgan & Cain, PC

Knoxville, Tennessee
October 9, 2012

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Management's Discussion and Analysis

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As management of Jefferson County Nursing Home ("JCNH" or "Nursing Home"), we offer readers of the financial statements this narrative overview and analysis of the financial performance during the years ended June 30, 2012, 2011, and 2010. Please read this analysis in conjunction with JCNH's financial statements.

FINANCIAL HIGHLIGHTS

JCNH's net assets decreased by \$221,748, \$143,636 and \$197,086, for the years ended June 30, 2012, 2011, and 2010, respectively.

JCNH produced income from operations of \$86,554 and \$191,530 for years ended June 30, 2012 and 2011, respectively. A loss was produced from operations of \$201,871 for year ended June 30, 2010.

Operating revenues were flat for year ended June 30, 2012. Operating revenues increased by 26.2% and 1.6% for years ended June 30, 2011 and 2010, respectively. Operating expenses increased 1.0%, 21.4% and 8.9% for years ended June 30, 2012, 2011, and 2010, respectively.

The majority of the revenue and expense increases during year ended June 30, 2011 were a result of the nursing home putting in service 25 new beds with the completion of its "Greenhouse" construction in late May of 2010. Years ended June 30, 2012 and 2011 included \$302,326 and \$334,994 of interest expense on bonds issued to finance the construction, whereas all such expense was capitalized as part of the capital asset during year ended June 30, 2010.

USING THESE ANNUAL FINANCIAL STATEMENTS

Jefferson County Nursing Home is considered a "component unit" of Jefferson County, Tennessee. Component units are separate legal entities; however, Jefferson County is financially accountable for the nursing home. Therefore, Jefferson County reports financial information regarding the nursing home in its annual report.

The Nursing Home is an enterprise fund, operating much like a private-sector company and is considered a business-type activity of Jefferson County. The Nursing Home charges residents for the services it provides.

This annual report of the Jefferson County Nursing Home consists of a series of financial statements. The Statements of Net Assets, the Statements of Revenues and Expenses and Changes in Net Assets, and the Statements of Cash Flows (which begin on page 10) provide information about the nursing home's operations. These statements include all assets and liabilities of the Nursing Home using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the Nursing Home's revenues and expenses for the years ended June 30, 2012 and 2011 are taken into account regardless of when cash is received or paid.

The Statements of Net Assets and the Statements of Revenues and Expenses and Changes in Net Assets report the nursing home's net assets and changes in them. The term "net assets" is the difference between assets and liabilities as of a certain point in time. The financial health, or

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financial position, of the Nursing Home can be measured in part by the amount of its net assets. Over time, increases or decreases in the Nursing Home's net assets are one indicator of whether its financial health is improving or deteriorating. Of course, there are other non-financial factors in assessing the overall health of the Nursing Home, such as quality of patient care and the base of potential Nursing Home residents in the area.

NURSING HOME DETAILS

The Nursing Home's operations produced operating income of \$86,554 and \$191,530 for years ended June 30, 2012 and 2011, respectively. After adding nonoperating revenues and expenses, the total decrease in the Nursing Home's net assets for the years ended June 30, 2012 and 2011 was \$221,748 and \$143,636, respectively. The unrestricted net assets - the part of the net assets that can be used to finance day-to-day operations without constraints established by legal requirements or board designations - decreased from \$867,168 at June 30, 2011 to \$796,554 at June 30, 2012, a decrease of \$70,614. The unrestricted net assets increased from \$704,099 at June 30, 2010 to \$867,168 at June 30, 2011, an increase of \$163,069.

Total revenue of the Nursing Home increased by \$1,962, or virtually flat during 2012 despite 491 more chargeable days in 2012 than 2011 due to Medicare reducing reimbursement 11.1% effective October 1, 2011 and Medicaid reducing reimbursement 2.5% effective January 1, 2012. 2011 total revenue increased \$2,388,889 or 26.2% during 2011 compared to 2010 primarily due to the addition of 25 beds to the facility effective May 24, 2010. The 2011 increase was primarily comprised of increased Medicaid revenue of \$882,140 and increased Medicare Parts A & B revenue of \$1,015,570. The Medicaid portion of chargeable days was 34,915 out of a total of 56,632, or 61.7% for 2012, and was 33,613 out of a total of 56,141, or 59.9%, for 2011. Medicaid revenue was 49.0% and 47.7% of 2012 and 2011 total revenue, respectively, and continues to constitute a significant portion of the nursing home's revenue. The Medicare portion of chargeable days was 7,559 out of a total of 56,632, or 13.3%, for 2012, and was 8,811 out of a total of 56,141, or 15.7%, for 2011. Medicare Parts A & B revenue was 29.0% and 30.9% of 2012 and 2011 total revenue, respectively.

In order to compete with other nursing homes and assisted living facilities, the Nursing Home is continually evaluating its services and making changes in order to give the very best care to residents. Historically, Jefferson County Nursing Home has had a waiting list of persons awaiting admission to the home. With that in mind, a construction project began a couple of years ago which added 25 beds to the facility effective May 24, 2010. The vision for this addition was unique and forward thinking, in that the new space was to be a home where the residents enjoy an excellent quality of care and life. One of the newest concepts in the nursing home industry is that of Green House homes, which fit the vision for the bed addition. According to The Greenhouse Project's web-site, the Green House model is a de-institutionalization effort designed to restore individuals to a home in the community by combining small homes with the full range of personal care and clinical services expected in high-quality nursing homes. Apart from the construction costs, the Nursing Home has incurred significant expenses in developing this project and implementing the conceptual framework.

Jefferson County Nursing Home is continuing with Phase II of construction, which consists of renovations to the Legacy Building. Construction began during the fiscal year ended June 30, 2011

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and continued through year ended June 30, 2012. The Nursing Home management believes the addition is necessary to serve the residents of Jefferson County now and into the future, demonstrated by the fact that the Nursing Home consistently has prospective residents on their waiting list.

Over the past several years, there has been an increase in the availability of assisted living facilities which has caused, in part, the acuity of patients entering the Nursing Home to increase. This increased frailty causes the residents to be more dependent on Nursing Home staff to help them with the basic activities of daily living and to take care of their progressively complicated medical needs. Residents rely on the Nursing Home staff to keep them clean, fed and safe. Perhaps more importantly, the work of our Nursing Home staff requires more than just completing tasks. Jefferson County Nursing Home strives to maintain a high quality of care, recognizing that the nursing home is "home" for our residents. Our staff must have time to just talk with and build relationships with residents in order to help residents develop a good quality of life. Quality care provided by CNA's and professional nurses in our nursing home takes time and costs money. In order to maintain staffing levels with quality personnel, Jefferson County Nursing Home has to provide comparable compensation and benefit packages with other nursing homes and hospitals.

The costs associated with maintaining staffing and providing benefits has continued to rise. Over the long run, adequate staffing can actually prevent additional costs; there is a correlation between low staffing levels and the likelihood of quality problems, including avoidable hospitalizations, deteriorating activities of daily living and increased incidence of pressure sores, weight loss and poor resident hygiene. There is also some cost savings to be realized through adequate staffing by reducing expenses related to staff injuries, and frequent recruiting and training.

Jefferson County Nursing Home's percentage of occupancy was 96.71% for the year ended June 30, 2012, which was an increase from the 96.13% percentage of occupancy for the year ended June 30, 2011, which had been a decrease from the 96.4% occupancy percentage for the year ended June 30, 2010. The decrease in percentage of occupancy for the year ended June 30, 2011 was primarily the result of the additional green house beds being filled gradually. Also, as stated earlier, due to the increased frailty for many of the Nursing Home residents, the residents' life spans after entering the Nursing Home are not as long as in the past, which can result in an increase in turn-around times on filling available beds, an increase in empty bed days, and a decrease in occupancy rates and revenues.

To supplement revenue and to provide additional services to the citizens of Jefferson County, the Nursing Home began participation in the Medicare program by admitting residents into skilled nursing care in May of 2004. Several factors contributed to the decision to participate in the Medicare program. One reason was due to residents being hospitalized for an acute episode of illness and the resident's physician requesting that they be discharged to a skilled care facility. This required that the resident be moved to a different nursing home with which the resident and their families were unfamiliar. Residents requiring skilled care demand more specialized services.

Under Level I reimbursement (intermediate care) guidelines, nursing home facilities are not reimbursed adequately to recover all of these costs. Furthermore, from a financial perspective, the costs associated with the operation of this facility have continued to rise. One such cost has been the increased wage expenses associated with maintaining quality personnel at this facility. The

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Medicare program created a new revenue stream, which better allows the Nursing Home to successfully meet the above needs and challenges and offset rising operational costs. Finally, with the demands of the consumers becoming more diverse and to be adequately positioned for future trends, offering a continuum of services is the most prudent strategy for long-term financial stability.

Participation in the Medicaid and Medicare programs requires the Nursing Home's commitment to following all the rules and regulations promulgated by these government programs. These regulations are ever changing and require the Nursing Home personnel to continue to learn through educational programs and seminars as well as on the job experience. Jefferson County Nursing Home's procedures and collections with respect to the Medicaid/Medicare programs have improved significantly over the past several years.

Jefferson County Nursing Home has a significant number of residents who qualify for Medicaid assistance. The Medicaid program reimburses the Nursing Home based on its operating costs which are reported on its annual cost report and is submitted to the State of Tennessee Comptroller's Office. The Nursing Home is limited as to the amount that it can charge Level 1 Medicaid patients for their rooms on a daily basis (the per-diem amount). The Nursing Home's per-diem rate for Medicaid ICF patients was \$162.73 from July 1, 2011 through December 31, 2011 and \$158.81 from January 1, 2012 through June 30, 2012. For Medicaid SNF patients, the per-diem rate was \$177.64 from July 1, 2011 through December 31, 2011 and \$173.35 from January 1, 2012 through June 30, 2012. The per-diem rate for private pay residents in private rooms was \$168.00 for the period July 1, 2011 through January 31, 2012 and \$173.00 for the period February 1, 2012 through June 30, 2012. The per-diem rate for private pay residents in semi-private rooms was \$163.00 for the period July 1, 2011 through June 30, 2012.

Operating costs increased 1% for year ended June 30, 2012. There was a large rise in operating costs for the year ended June 30, 2011, with the largest increases being employee costs including salaries, health insurance and retirement. The June 30, 2011 increases were anticipated due to the addition of 25 beds, the Nursing Home's operations being labor intensive, and considering the struggle to retain well-trained competent nursing personnel to sufficiently staff the Nursing Home. Salaries and wages increased \$974,694, or 22.5%, for the year ended June 30, 2011. The increase was mainly due to staffing increases for the new addition. The Nursing Home's expense for providing health insurance coverage for its employees increased by \$117,215, or 14.0% during year ended June 30, 2011. The Nursing Home administration feels that maintaining a quality level of personnel at competitive wage rates and rewarding job performance is a key factor to the Nursing Home's success in providing the best quality of life that it can for its residents (see discussion above).

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The following tables summarize the nursing home's Net Assets (Table 1), and Changes in Net Assets (Table 2) for years ended June 30, 2012, 2011 and 2010:

Table 1
Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 1,833,361	\$ 3,275,436	\$ 3,867,447
Capital assets	<u>8,775,638</u>	<u>7,589,958</u>	<u>7,350,849</u>
Total assets	<u>10,608,999</u>	<u>10,865,394</u>	<u>11,218,296</u>
Long-term debt outstanding	<u>(7,287,548)</u>	<u>(7,458,719)</u>	<u>(7,625,898)</u>
Other liabilities	<u>(1,125,015)</u>	<u>(988,491)</u>	<u>(1,030,578)</u>
Total liabilities	<u>(8,412,563)</u>	<u>(8,447,210)</u>	<u>(8,656,476)</u>
Net assets:			
Invested in capital assets, net of related debt	1,383,144	1,534,289	1,841,018
Temporarily restricted net assets	16,738	16,727	16,703
Undesignated	<u>796,554</u>	<u>867,168</u>	<u>704,099</u>
Total net assets	<u>\$ 2,196,436</u>	<u>\$ 2,418,184</u>	<u>\$ 2,561,820</u>

Table 2
Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenue:			
Routine services	\$ 8,109,264	\$ 7,975,987	\$ 6,536,059
Medicare - Part A revenue	2,815,609	3,308,854	2,242,486
Medicare - Part B ancillaries	515,008	239,824	290,622
Ancillaries - other payables	3,509	1,289	20,631
Other	29,460	24,721	56,733
Less: bad debts	<u>25,873</u>	<u>(48,110)</u>	<u>(27,898)</u>
Total Revenue	<u>11,498,723</u>	<u>11,502,565</u>	<u>9,118,633</u>
Expenses:			
General and administrative	2,470,767	2,473,516	2,206,298
bed license tax	356,000	356,000	306,207
Nursing	4,370,098	4,345,856	3,420,929
Activities and social services	217,011	228,487	205,285
Dietary	1,017,375	1,079,435	971,617
Housekeeping	398,343	469,370	430,666
Laundry & linen	40,107	22,612	25,415
Plant operation and maintenance	576,241	553,673	471,030
Medicare expense	1,206,772	1,023,785	806,673
Drugs	421,625	436,990	303,797
Depreciation	337,385	315,062	161,381
Interest	302,326	334,994	-
Nonoperating expenses	<u>6,421</u>	<u>6,421</u>	<u>6,421</u>
Total Expenses	<u>11,720,471</u>	<u>11,646,201</u>	<u>9,315,719</u>
Decrease in Net Assets	<u>\$ (221,748)</u>	<u>\$ (143,636)</u>	<u>\$ (197,086)</u>

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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012 Jefferson County Nursing Home had \$8,775,638 invested in net capital assets, the majority of which was invested in buildings (\$6,400,777). The remaining capital assets consisted of land, land improvements, vehicles and equipment. Net capital assets increased by \$1,185,680, \$239,109 and \$5,057,714 during years ended June 30, 2012, 2011 and 2010, respectively. The increase was net of current year additions and current year depreciation. Capital asset additions during years ended June 30, 2012 and 2011 was primarily from the renovation of the Legacy Building and year ended June 30, 2010 were primarily from the cost of new construction and the equipment and furnishings related to the new Greenhouse space. A more detailed asset addition listing is included in Table 4 below.

The following tables summarize the nursing home's capital assets for the years ended June 30, 2012, 2011 and 2010 (Table 3) and capital asset additions (Table 4).

Table 3
Capital Assets at June 30, (net of depreciation)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 7,181	\$ 7,181	\$ 7,181
Land improvements	127,455	114,513	52,932
Buildings	6,400,777	6,498,177	6,421,498
Construction in progress	1,292,788	204,137	-
Motor vehicles	63,668	79,554	70,685
Equipment	883,769	686,396	798,553
Totals	<u>\$ 8,775,638</u>	<u>\$ 7,589,958</u>	<u>\$ 7,350,849</u>

Table 4
Current Year Additions - at Cost

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Building	\$ 1,184,316	\$ 472,004	\$ 4,598,575
Land improvements	21,008	65,113	53,656
Fixed equipment	-	-	78,246
Movable equipment	324,858	6,262	412,292
Transportation equipment	-	23,840	76,326
Total Additions	<u>\$ 1,530,182</u>	<u>\$ 567,219</u>	<u>\$ 5,219,095</u>

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Debt

At June 30, 2012, the nursing home had \$7,405,000 payable in outstanding bonds plus unamortized bond premium paid in the amount of \$53,719. The bonds were issued on December 2, 2007. The purpose of the bond issue was to fund the addition to the nursing home. The bonds are general obligation improvement and refunding bonds of Jefferson County; however, the nursing home will be responsible for paying all principal and interest due on the bonds. More extensive information concerning the bond issue can be found in Note 7 of the financial statements.

The nursing home has other current liabilities due at June 30, 2012, including normal accounts payable, salaries payable and vacation leave payable.

CONTACTING THE NURSING HOME'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens, taxpayers, patients and their families, and creditors with a general overview of the Nursing Home's finances and to show the Nursing Home's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jefferson County Nursing Home's business office at 914 Industrial Park Road, Dandridge, Tennessee 37725.

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Statements of Net Assets

June 30, 2012 and 2011

	<u>Assets</u>	
	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 664,665	\$ 556,536
Patient accounts receivable, less allowance for uncollected accounts of \$11,363 and \$48,168 in 2012 and 2011, respectively	698,423	839,491
Inventories	34,299	30,820
Prepaid expenses	<u>17,775</u>	<u>7,315</u>
Total current assets	<u>1,415,162</u>	<u>1,434,162</u>
Restricted assets:		
Cash - scholarships for employees	16,738	16,727
Cash - construction contract retainage	58,978	-
Investments - bond proceeds	<u>174,046</u>	<u>1,649,689</u>
Total restricted assets	249,762	1,666,416
Property and equipment, net	8,775,638	7,589,958
Land held for investment	4,700	4,700
Bond issuance costs, net of accumulated amortization of \$28,895 and \$22,474 in 2011 and 2010, respectively	<u>163,737</u>	<u>170,158</u>
	<u>\$ 10,608,999</u>	<u>\$ 10,865,394</u>

See accompanying notes to the financial statements.

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Statements of Net Assets

June 30, 2012 and 2011

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current liabilities:		
Current portion of long-term debt	\$ 171,171	\$ 167,179
Accounts payable	268,611	305,062
Construction costs payables	140,178	52,314
Accrued expenses:		
Salaries and wages	179,888	161,056
Vacation/holiday pay	206,750	187,824
Payroll taxes	22,017	21,712
Employee retirement	62,192	17,682
Interest	26,621	27,146
Other	16,282	10,289
Estimated third-party payor settlements	<u>31,305</u>	<u>38,227</u>
Total current liabilities	1,125,015	988,491
Long-term debt, excluding current portion	<u>7,287,548</u>	<u>7,458,719</u>
Total liabilities	<u>8,412,563</u>	<u>8,447,210</u>
Net Assets:		
Unrestricted:		
Invested in capital assets, net of related debt	1,383,144	1,534,289
Undesignated	796,554	867,168
Temporarily restricted net assets	<u>16,738</u>	<u>16,727</u>
Total net assets	<u>2,196,436</u>	<u>2,418,184</u>
	<u>\$ 10,608,999</u>	<u>\$ 10,865,394</u>

See accompanying notes to the financial statements.

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Statements of Revenue, Expenses and Changes in Net Assets

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Change in unrestricted net assets:		
Operating revenue:		
Patient service revenue, plus \$25,873 of bad debt recoveries in 2012, net of provisions for bad debts of \$48,110 in 2011	\$ 11,469,708	\$ 11,470,353
Other income	<u>28,570</u>	<u>25,963</u>
Total operating revenue	<u>11,498,278</u>	<u>11,496,316</u>
Operating Expenses:		
General and administrative	2,470,767	2,473,516
Tennessee nursing home tax	356,000	356,000
Nursing	4,370,098	4,345,856
Activities	70,523	81,687
Social services	146,488	146,800
Dietary	1,017,375	1,079,435
Housekeeping	398,343	469,370
Laundry and linen	40,107	22,612
Plant operation and maintenance	576,241	553,673
Ancillary services expenses	1,206,772	1,023,785
Drugs	421,625	436,990
Depreciation	<u>337,385</u>	<u>315,062</u>
Total operating expenses	<u>11,411,724</u>	<u>11,304,786</u>
Income from operations	<u>86,554</u>	<u>191,530</u>
Nonoperating revenues (expenses):		
Interest income - investments and interest bearing accounts	372	11,085
Bond premium amortization	7,179	8,188
Loss on disposal of capital assets	(7,117)	(13,048)
Interest expense	(302,326)	(334,994)
Bond issuance cost amortization	<u>(6,421)</u>	<u>(6,421)</u>
Nonoperating revenues (expenses)	<u>(308,313)</u>	<u>(335,190)</u>
Decrease in unrestricted net assets	(221,759)	(143,660)
Changes in temporarily restricted net assets:		
Interest Income	<u>11</u>	<u>24</u>
Net assets at beginning of year	<u>2,418,184</u>	<u>2,561,820</u>
Net assets at end of year	<u>\$ 2,196,436</u>	<u>\$ 2,418,184</u>

See accompanying notes to the financial statements.

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Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 11,603,852	\$ 11,401,830
Payments to suppliers and employees	(11,036,163)	(10,978,041)
Other receipts and payments, net	<u>28,570</u>	<u>25,963</u>
Net cash provided by operating activities	<u>596,259</u>	<u>449,752</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(160,000)	(150,000)
Interest paid on long-term debt	(331,181)	(337,181)
Purchases of property and equipment	(1,413,986)	(618,150)
Decrease (increase) in cash restricted for construction costs	<u>(58,978)</u>	<u>135,173</u>
Net cash used by capital and related financing activities	<u>(1,964,145)</u>	<u>(970,158)</u>
Cash flows from investing activities:		
Proceeds from certificates of deposits	-	131,206
Proceeds from sale of investments	1,475,643	621,971
Investment income	<u>372</u>	<u>11,085</u>
Net cash provided by investing activities	<u>1,476,015</u>	<u>764,262</u>
Increase in cash and cash equivalents	108,129	243,856
Cash and cash equivalents at beginning of year	<u>556,536</u>	<u>312,680</u>
Cash and cash equivalents at end of year	<u>\$ 664,665</u>	<u>\$ 556,536</u>
Reconciliation of operating income to net cash provided by operating activities:		
Income from operations	\$ 86,554	\$ 191,530
Adjustments to reconcile income from operations to cash provided by operating activities:		
Depreciation	337,385	315,062
(Recovery) provision for bad debts	(25,873)	48,110
(Increase) decrease in operating assets:		
Patient accounts receivable	166,940	(108,755)
Inventories	(3,479)	(2,060)
Prepaid expenses	(10,460)	3,825
Increase (decrease) in operating liabilities:		
Accounts payable	(35,926)	(52,986)
Accrued expenses	88,041	62,904
Estimated third-party payor settlements	<u>(6,923)</u>	<u>(7,878)</u>
Net cash provided by operating activities	<u>\$ 596,259</u>	<u>\$ 449,752</u>

See accompanying notes to the financial statements.

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

(1) Nature of operations

Jefferson County Nursing Home (Nursing Home) is a political subdivision of Jefferson County, Tennessee (County). The Nursing Home provides long-term health care primarily for the citizens of the County. It is governed, operated and controlled by a five-member board of commissioners who are appointed by the Board of County Commissioners of the County. The County is legally obligated to assume the nursing home's debt in the event of default and is legally obligated to provide financial support, making the County financially accountable for the Nursing Home. Therefore, the Nursing Home is a discrete component unit of the County for financial reporting purposes.

(2) Summary of significant accounting policies

(a) Basis of presentation

The Nursing Home utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Nursing Home has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) and predecessor standard setting organizations, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

(b) Inventories

Inventories are stated at the lower of cost, determined on the first-in, first-out (FIFO) basis, or market (net realizable value).

(c) Cash, cash equivalents and investments

For the purpose of the statement of cash flows, cash and cash equivalents are defined as cash on hand or in banks and investments with original maturities at date of purchase of less than three months, excluding assets limited as to use.

All of the Nursing Home's cash and cash equivalents are covered by federal depository insurance or collateralized by securities held by the financial institutions' trust department in the Nursing Home's name.

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

(d) Fair value measurements

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Nursing Home does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2012 or 2011.

Financial assets

The carrying amount of financial assets, consisting of cash and cash equivalents, patient accounts receivable, prepaid expenses, accounts payable, accrued expenses and current portions of long-term debt approximate their fair value due to their relatively short maturities. Long-term debt is carried at amortized cost, which approximates fair value.

Non-financial assets

The Nursing Home's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Nursing Home is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at fair value. During the years ended June 30, 2012 and 2011, the Nursing Home did not measure any non-financial assets at fair value or recognize any amounts in the statements of activities related to changes in fair value for non-financial assets.

(e) Property and equipment

Property and equipment acquisitions are recorded at cost. The Nursing Home capitalizes purchases that cost a minimum of \$500 and have a useful life greater than two years. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 10-12 years; buildings and improvements 10-40 years; equipment 4-20 years, and transportation equipment 5-7 years.

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

(f) Patient service revenue

The Nursing Home has agreements with third-party payors that provide for payments to the Nursing Home at amounts different from its established rates. Payment arrangements include prospectively determined per diem rates per day and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient service revenue is reduced by contractual adjustments of approximately \$110,000 for the year ended June 30, 2012 and increased by positive contractual adjustments of approximately \$525,000 for the year ended June 30, 2011.

(g) Costs of borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest costs of \$28,330 and \$1,695 were capitalized during years ended June 30, 2012 and 2011, respectively.

(h) Pension plan

Nursing Home employees are covered under The Tennessee Consolidated Retirement System, a defined benefit plan. The Nursing Home's costs are charged to expense and funded annually.

(i) Compensated absences

The Nursing Home provides its full-time employees with paid days off for holiday, vacation, sick, and bereavement absences. The vacation paid days off begin accruing after one year of service and are based on the table which follows. Such days may be taken only after the employee has earned them. There is no limit on the amount of earned days which may be carried forward if not taken in the year earned. Such liabilities have been accrued in the accompanying statement of net assets.

<u>Years of service</u>	<u>Days earned per year</u>
1-10	10
11-20	15
20 or more	20

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

(j) Risk management

The Nursing Home is exposed to various risks of loss from medical malpractice; torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. Commercial insurance is purchased for claims arising from such matters. The Nursing Home insures for employee health claims through a County plan administered by the State of Tennessee discussed in Note 9.

(k) Net assets

All resources that are not restricted by donors are included in unrestricted net assets. Resources temporarily restricted by donors for specific purposes are reported as temporarily restricted net assets. When specific purposes are achieved, either through passage of a stipulated time or the purpose for restriction is accomplished, they are classified to unrestricted net assets and reported in the statement of revenues, expenses and changes in net assets. Resources temporarily restricted by donors for additions to land, building and equipment are initially reported as temporarily restricted net assets and are transferred to unrestricted net assets when expended. Donor-imposed restrictions which stipulate that the resources be maintained permanently are reported as permanently restricted net assets. Investment income for the permanently restricted net assets is classified as either temporarily restricted or unrestricted based on the intent of the donor. As of June 30, 2012 and 2011, there were no permanently restricted net assets, while there were temporarily restricted net assets restricted for employee scholarships as discussed in Note 3.

(l) Income taxes

The Nursing Home as a political subdivision of the County is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

(m) Long-lived assets

Management evaluates the recoverability of its investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(n) Use of estimates

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.

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

(o) Events occurring after reporting date

The Nursing Home has evaluated events and transactions that occurred between June 30, 2012 and October 9, 2012, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Restricted assets

Cash in the employee scholarship fund is available to provide scholarships to qualifying employees. Certain donations received are designated to be used for higher education of employees. Deposits to the fund come from private donations and monthly interest earned. The only withdrawals made are to award \$2,000 scholarships to qualifying employees. Scholarships awarded are subject to board approval. A minimum account balance of \$10,000 is maintained. No employees received a scholarship during years ended June 30, 2012 and 2011.

The County issued \$8,000,000 in general obligation bonds to fund construction of an addition to the nursing home as described in Note 7. The net proceeds from those bonds of \$7,900,000 were deposited into an investment account with Morgan Keegan & Company, Inc. by Ginger Franklin, Jefferson County trustee. As construction progresses, draws are requested by the trustee, and, upon receipt, the county finance officer forwards the funds to the Nursing Home. The remaining bond proceeds are primarily invested in municipal bonds and federal agency obligations. As of June 30, 2012 the remaining \$174,046 was invested in interest bearing cash. As of June 30, 2011, the investments consisted of cash in the amount of \$158,455, state and municipal bonds of \$101,248 and U.S. federal agency securities of \$1,389,986.

Cash held in the construction contract retainage represents a trust account established for the benefit of the construction contractor to set aside funds for the future payment of retainage withheld until earned by the contractor under the terms of the contract.

(4) Third-party reimbursement programs

The Nursing Home receives revenue under various third-party reimbursement programs which include Medicare, Medicaid, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the Nursing Home's billings at its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. There were no adjustments to revenue resulting from tentative or final settlements to estimated reimbursement amounts for the years ended June 30, 2012 and 2011.

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

(a) Medicare

The Nursing Home is paid for substantially all services rendered to Medicare program beneficiaries for skilled nursing care under prospectively determined case-mix rates. Those rates vary according to a classification system that is based on a medical assessment of the rehabilitation needed, extensive of services needed, and other factors. The patient is often responsible for a portion of the fee. For the patient portion of fees not collected after normal collection efforts, the Nursing Home is reimbursed for such uncollected fees with the filing of an annual cost report.

(b) Medicaid

The Medicaid program reimburses the Nursing Home for the cost of skilled nursing or routine care services rendered to Medicaid beneficiaries at a prospective rate which is based on the lower of the reimbursable cost of services rendered or a reimbursement cap set by Medicaid for each level of service. The reimbursement cap is expressed as a per diem.

(c) Commercial payors

The Nursing Home has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Nursing Home under these agreements includes prospectively determined rates per day and discounts from established rates.

(d) Concentrations

The Nursing Home grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. At June 30, 2012 and 2011, the Nursing Home had net receivables from the Federal Government (Medicare) of approximately \$187,000 and \$248,000 and from Medicaid of approximately \$258,000 and \$277,000, respectively. Medicare comprised 29% and 31% and Medicaid comprised 49% and 48% of net patient service revenue for the years ended June 30, 2012 and 2011, respectively.

(5) Inventories

A summary of inventories as of June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Food	\$ 13,937	\$ 13,374
Medical supplies	6,787	9,018
Housekeeping supplies	4,452	2,850
Maintenance supplies	<u>9,123</u>	<u>5,578</u>
	<u>\$ 34,299</u>	<u>\$ 30,820</u>

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

(6) Property and equipment

The major classifications and changes in property and equipment as of and for the years ended June 30, 2012 and 2011 are as follows:

	<u>Balance at July 1, 2011</u>	<u>Additions/ Transfers</u>	<u>Placed in Service/ Retirements</u>	<u>Balance at June 30, 2012</u>
Land	\$ 7,181	\$ -	\$ -	\$ 7,181
Land improvements	165,420	21,008	-	186,428
Buildings and improvements	8,727,370	95,665	(27,983)	8,795,052
Machinery and equipment	1,738,737	324,858	(162,550)	1,901,045
Transportation equipment	<u>100,166</u>	<u>-</u>	<u>-</u>	<u>100,166</u>
	<u>10,738,874</u>	<u>441,531</u>	<u>(190,533)</u>	<u>10,989,872</u>
Less allowance for depreciation and amortization:				
Land improvements	(50,907)	(8,066)	-	(58,973)
Buildings and improvements	(2,229,193)	(192,918)	(27,836)	(2,394,275)
Machinery and equipment	(1,052,341)	(120,515)	(155,580)	(1,017,276)
Transportation equipment	<u>(20,612)</u>	<u>(15,886)</u>	<u>-</u>	<u>(36,498)</u>
	<u>(3,353,053)</u>	<u>(337,385)</u>	<u>183,416</u>	<u>(3,507,022)</u>
	7,385,821	104,146	(7,117)	7,482,850
Construction in progress	<u>204,137</u>	<u>1,088,651</u>	<u>-</u>	<u>1,292,788</u>
	<u>\$ 7,589,958</u>	<u>\$ 1,192,797</u>	<u>\$ (7,117)</u>	<u>\$ 8,775,638</u>

JEFFERSON COUNTY NURSING HOME
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Notes to the Financial Statements

June 30, 2012 and 2011

	<u>Balance at July 1, 2010</u>	<u>Additions/ Transfers</u>	<u>Placed in Service/ Retirements</u>	<u>Balance at June 30, 2011</u>
Land	\$ 7,181	\$ -	\$ -	\$ 7,181
Land improvements	100,307	65,113	-	165,420
Buildings and improvements	8,459,503	267,867	-	8,727,370
Machinery and equipment	1,869,133	6,262	(136,658)	1,738,737
Transportation equipment	<u>76,326</u>	<u>23,840</u>	<u>-</u>	<u>100,166</u>
	<u>10,512,450</u>	<u>363,082</u>	<u>(136,658)</u>	<u>10,738,874</u>
Less allowance for depreciation and amortization:				
Land improvements	(47,377)	(3,530)	-	(50,907)
Buildings and improvements	(2,038,005)	(191,188)	-	(2,229,193)
Machinery and equipment	(1,070,579)	(105,372)	123,610	(1,052,341)
Transportation equipment	<u>(5,640)</u>	<u>(14,972)</u>	<u>-</u>	<u>(20,612)</u>
	<u>(3,161,601)</u>	<u>(315,062)</u>	<u>(123,610)</u>	<u>3,353,053</u>
	7,350,849	48,020	(13,048)	7,385,821
Construction in progress	<u>-</u>	<u>204,137</u>	<u>-</u>	<u>204,137</u>
	<u>\$ 7,350,849</u>	<u>\$ 252,157</u>	<u>\$ (13,048)</u>	<u>\$ 7,589,958</u>

The Nursing Home is in the process of making renovations to the original facility. The remaining commitment under a construction contract is \$48,800 as of June 30, 2012.

(7) Long-term debt

A schedule of changes in the Nursing Home's long-term debt as of and for the years ended June 30, 2012 and 2011 is as follows:

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Amounts Due Within One Year</u>
General Obligation					
Bonds - 2007	\$ 7,565,000	\$ -	\$ (160,000)	\$ 7,405,000	\$ 165,000
Bond premium	<u>60,898</u>	<u>-</u>	<u>(7,179)</u>	<u>53,719</u>	<u>6,171</u>
	<u>\$ 7,625,898</u>	<u>\$ -</u>	<u>\$ (167,179)</u>	<u>\$ 7,458,719</u>	<u>\$ 171,171</u>

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2011</u>	<u>Amounts Due Within One Year</u>
General Obligation					
Bonds - 2007	\$ 7,715,000	\$ -	\$ (150,000)	\$ 7,565,000	\$ 160,000
Bond premium	<u>69,086</u>	<u>-</u>	<u>(8,188)</u>	<u>60,898</u>	<u>7,179</u>
	<u>\$ 7,784,086</u>	<u>\$ -</u>	<u>\$ (158,188)</u>	<u>\$ 7,625,898</u>	<u>\$ 167,179</u>

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

Jefferson County, Tennessee issued \$8,000,000 General Obligation Bonds, Series 2007, dated December 21, 2007 to fund a 25 bed addition to the Nursing Home. The bonds are direct general obligations of Jefferson County, Tennessee payable from ad valorem taxes levied upon all taxable property within Jefferson County without limitation as to rate or amount. The full faith and credit of Jefferson County, Tennessee is irrevocably pledged to pay principal, redemption premiums, if any, and interest on the bonds. However, because the debt was incurred specifically for the addition to the Nursing Home and the Nursing Home is expected to repay the debt in full, the bond transactions are reported on the Nursing Home's financial statements.

The bonds were issued at a premium totaling \$92,631. The bond premium is amortized over the life of the bonds and reported as interest income. The unamortized premium is reported on the statements of net assets as an addition to the face amount of the bonds. Premium amortization for the fiscal years ended June 30, 2012 and 2011 totaled \$7,179 and \$8,188, respectively.

Expenses related to the bond issue included the underwriter's discount in the amount of \$63,631, the bond insurance premium in the amount of \$69,000, and costs of issuance in the amount of \$60,000. These expenses are reported as bond issuance costs on the Nursing Home's statements of net assets and amortized over the life of the bonds. The amortization totaled \$6,421 for each of the years ended June 30, 2012 and 2011.

The coupon rates range from 4.0% to 4.4% with interest payable in semi-annual payments on June 1 and December 1 and annual principal installments ranging from \$140,000 to \$480,000 each June 1. The final principal installment is due June 1, 2037.

A summary of future maturities and interest of long-term debt as of June 30, 2012 is as follows:

<u>Year</u>	<u>Bond Premium Amortization</u>	<u>Principal</u>	<u>Estimated Interest</u>	<u>Total Payments</u>
2013	\$ 6,171	\$ 165,000	\$ 324,781	\$ 489,781
2014	5,186	175,000	318,181	493,181
2015	4,200	180,000	311,181	491,181
2016	3,236	190,000	303,981	493,981
2017	2,271	200,000	296,381	496,381
2018 - 2022	9,501	1,125,000	828,306	1,953,306
2023 - 2027	11,074	1,415,000	807,156	2,222,156
2028 - 2032	9,230	1,755,000	707,394	2,462,394
2033 - 2037	<u>2,850</u>	<u>2,200,000</u>	<u>299,202</u>	<u>2,499,202</u>
	<u>\$ 53,719</u>	<u>\$ 7,405,000</u>	<u>\$ 4,196,563</u>	<u>\$ 11,601,563</u>

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

(8) Pension plan

Certain employees of the Nursing Home 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). 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 the Nursing Home 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.

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 www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

The Nursing Home is a political subdivision of the County. The Nursing Home's funding policy and schedule of pension plan funding progress have not been included within the financial statements as these amounts are aggregated with the County. The Jefferson County Annual Financial Report should be read to obtain the aggregated information related to funding policy and schedule of pension plan funding progress. For the years ended June 30, 2012 and 2011, the Nursing Home's annual pension costs were approximately \$578,000 and \$584,000, respectively.

(9) Commitments and contingencies

The Nursing Home leases various equipment under short-term operating lease agreements. Rent expense totaled \$6,535 and \$5,748 in 2012 and 2011, respectively.

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

The Nursing Home is a member of the Local Government Group Insurance Fund ("LGGIF"), a public entity risk pool established to provide a program of health insurance coverage for employees of local governments and quasi-governmental entities that was established for the primary purpose of providing services for or on behalf of state and local governments. In accordance with Section 8-27-207, TCA, all governments and quasi-governmental entities described above are eligible to participate. The LGGIF is included in the Comprehensive Annual Financial Report of the State of Tennessee, but the state does not retain any risk for losses by this fund. The state statute provides for the LGGIF to be self-sustaining through member premiums.

Healthcare Industry

The delivery of personal and health care services entails an inherent risk of liability. Participants in the health care services industry have become subject to an increasing number of lawsuits alleging negligence or related legal theories, many of which involve large claims and result in the incurrence of significant exposure and defense costs. The Nursing Home maintains commercial insurance on an occurrence basis for medical malpractice liabilities. Insurance coverages are \$1,000,000 individually and \$3,000,000 in the aggregate annually. The State of Tennessee maintains litigation settlement limitations for governmental entities which are less than the Nursing Home's insurance coverages. Management intends to maintain insurance coverages in the future. The Nursing Home could be involved in litigation arising in the ordinary course of business; however, management is of the opinion that insurance coverages are adequate to cover any future potential losses on asserted claims. Management is unaware of any incidents which would ultimately result in a loss in excess of the Nursing Home's insurance coverages. The Nursing Home also maintains insurance for general liability, director and officer liability and property.

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/or allegations concerning possible violations of fraud and abuse statutes and/or 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 the the Nursing Home is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Healthcare Reform

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation,

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Notes to the Financial Statements

June 30, 2012 and 2011

reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of the Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Nursing Home's operations.

The Nursing Home had a line of credit agreement with a bank whereby it could borrow up to \$500,000 for cash flow purposes; however, it was not renewed when it matured on August 31, 2012. No amounts were borrowed from the line of credit. The interest rate for amounts borrowed was variable and would have been 5.25% at June 30, 2012.

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Nursing Home Officials

June 30, 2012

Board of Directors:

Alan Palmieri, Chairman
N. M. Hodges, Vice Chairman
Linda Franklin, Secretary
Marty Mills
E. M. Rogers

Administration:

Roger L. Mynatt, Administrator
Rebecca D. Woods, Assistant Administrator

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Schedules of Operating Revenues

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenue:		
Routine services - Private ICF/SNF	\$ 1,733,040	\$ 1,761,887
Routine services - Medicaid ICF	5,391,645	5,325,831
Routine services - Medicaid SNF	242,956	157,885
Routine services - Hospice ICF	384,928	233,087
Routine services - Hospice SNF	62,525	19,365
Routine services - commercial insurance/HMO	350,300	477,932
Medicare - Part A revenue	2,815,609	3,308,854
Medicare - Part B ancillaries	515,008	239,824
Ancillaries - hospice/commercial insurance/HMO	3,509	1,289
Prior period revenue adjustments	(55,685)	(7,491)
Bad debts	25,873	(48,110)
Employee and visitor meals	7,584	11,954
Telephone	9,834	9,063
Other income	<u>11,152</u>	<u>4,946</u>
Total operating revenue	\$ <u>11,498,278</u>	\$ <u>11,496,316</u>

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Schedules of Operating Expenses

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
General and administrative:		
Salaries		
Administrator	\$ 109,081	\$ 112,334
Assistant administrator	70,912	71,778
Administrative staff	200,704	199,961
Information tech	58,051	58,537
Payroll taxes	32,101	32,373
Forms and office supplies	36,493	43,733
Telephone	31,347	30,369
License and dues	18,861	35,764
Professional services - other	7,600	1,710
Professional services - accounting	16,417	15,668
Professional services - legal	67	1,225
Insurance		
Employee life insurance	10,214	12,105
Employee health insurance	965,700	951,747
Commercial insurance	98,349	99,038
Workers' compensation insurance	125,627	93,930
Retirement	578,470	584,370
Bank charges	1,510	1,634
Employee physicals	10,307	11,016
Training, seminars and conferences	6,168	6,892
Travel expenses	9,742	12,717
Advertising	8,491	6,084
IT services	11,386	11,751
Other compensation and awards	15,615	19,045
Flowers and gifts	2,622	3,787
Employee background checks	793	1,302
Minor equipment	24,389	26,277
Equipment rental	6,535	5,748
Postage and delivery	4,475	3,605
Barber and beauty expenses	8,740	8,582
Miscellaneous expenses	-	10,434
Total general and administrative	<u>\$ 2,470,767</u>	<u>\$ 2,473,516</u>
Tennessee nursing home tax	<u>\$ 356,000</u>	<u>\$ 356,000</u>
Nursing		
Salaries		
Director of nursing	\$ 79,868	\$ 76,503
Assistant director of nursing	57,357	31,134
Green house guide	22,753	-
Minimum Data Set	111,933	78,039
Unit managers	199,267	221,578
Registered nurses	57,673	120,010
Licensed practical nurses	1,238,094	1,246,925
Certified nursing assistants	1,987,096	1,957,881
Feeding assistants	51,119	50,850
Payroll taxes	303,958	298,173
Medical director	16,280	14,118
Supplies	243,430	249,490
Podiatry consultant	-	-
Training, seminars and conferences	1,270	1,155
Total nursing	<u>\$ 4,370,098</u>	<u>\$ 4,345,856</u>

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Schedules of Operating Expenses

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Activities		
Salaries		
Activities director	\$ 33,249	\$ 32,787
Activities staff	24,050	31,812
Payroll taxes	4,614	5,081
Supplies	8,610	12,007
Total activities	<u>\$ 70,523</u>	<u>\$ 81,687</u>
Social services		
Salaries		
Social services director	\$ 40,006	\$ 36,762
Social services staff	95,941	99,216
Payroll taxes	10,541	10,822
Total social services	<u>\$ 146,488</u>	<u>\$ 146,800</u>
Dietary		
Salaries		
Dietary supervisor	\$ 34,194	\$ 33,201
Dietary staff	357,691	384,622
Payroll taxes	32,100	34,000
Food	520,163	575,678
Supplies	39,679	35,362
Dietary consultant	26,497	16,326
Minor equipment	7,051	246
Total dietary	<u>\$ 1,017,375</u>	<u>\$ 1,079,435</u>
Housekeeping		
Salaries		
Housekeeping supervisor	\$ 34,907	\$ 38,313
Housekeeping staff	287,681	329,864
Payroll taxes	27,136	29,800
Supplies	48,619	71,393
Total housekeeping	<u>\$ 398,343</u>	<u>\$ 469,370</u>
Laundry and linen		
Supplies	\$ 30,211	\$ 7,326
Minor equipment	349	-
Linen and bedding	9,547	15,286
Total laundry and linen	<u>\$ 40,107</u>	<u>\$ 22,612</u>

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Schedules of Operating Expenses

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Plant operation and maintenance		
Salaries		
Maintenance supervisor	\$ 44,795	\$ 42,150
Maintenance staff	55,963	51,013
Payroll taxes	7,800	6,915
Gas	85,612	88,473
Electricity	167,615	169,653
Water and sewer	75,923	63,985
Supplies	93,761	91,484
Minor equipment	7,652	3,215
Pest control	7,815	7,056
Waste disposal	14,076	8,004
Grounds	15,229	21,725
Total plant operation and maintenance	<u>\$ 576,241</u>	<u>\$ 553,673</u>
Ancillary services expenses		
Medicare Part A - therapy	537,993	509,201
Medicare Part A - lab	21,161	24,033
Medicare Part A - other services	6,282	7,026
HMO/MCO physical therapy	38,494	65,633
HMO/MCO occupational therapy	42,376	40,350
HMO/MCO speech therapy	17,360	31,645
Medicare Part B - physical therapy	177,195	73,842
Medicare Part B - occupational therapy	96,185	25,731
Medicare Part B - speech therapy	135,906	104,682
Private pay - physical therapy	(267)	866
Private pay - occupational therapy	(346)	124
Private pay - speech therapy	(171)	576
Lab fees	20	-
Ambulance expense	47,467	54,170
X-ray	12,772	13,582
Transportation	5,236	173
Endoscopic services	-	1,000
Respiratory services	69,109	71,151
Total ancillary services expenses	<u>\$ 1,206,772</u>	<u>\$ 1,023,785</u>
Drugs		
Drugs Part A	\$ 345,308	\$ 396,574
Drugs Part D	29,335	25,233
Pharmacy consultant	9,313	8,619
Floor stock drugs and supplies	37,669	6,564
Total drugs	<u>\$ 421,625</u>	<u>\$ 436,990</u>
Depreciation	<u>\$ 337,385</u>	<u>\$ 315,062</u>
Total operating expenses	<u>\$ 11,411,724</u>	<u>\$ 11,304,786</u>

JEFFERSON COUNTY NURSING HOME
(a component unit of Jefferson County)

Nursing Home Statistics

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Days in fiscal year	366	365
Total resident beds, end of year	160	160
Maximum patient days	58,560	58,400
Chargeable resident days	56,632	56,141
Percent of occupancy on chargeable days	96.71%	96.13%
Total revenue	\$ 11,498,723	\$ 11,502,565
Average income per chargeable day	\$ 203.04	\$ 204.89
Total expenses	\$ 11,720,471	\$ 11,646,201
Average expenses per chargeable day	\$ 206.96	\$ 207.45
Average income per chargeable day	\$ 203.04	\$ 204.89
Average expenses per chargeable day	<u>(206.96)</u>	<u>(207.45)</u>
Average net income per chargeable day	<u>\$ (3.92)</u>	<u>\$ (2.56)</u>
Average revenue per day	\$ 31,417	\$ 31,514
Average expenses per day	<u>(32,023)</u>	<u>(31,907)</u>
Average net loss per day	<u>\$ (606)</u>	<u>\$ (393)</u>
Total salaries	\$ 5,252,385	\$ 5,305,267
Average daily salary	\$ 14,351	\$ 14,535
Total cost of meals	\$ 1,017,375	\$ 1,079,435
Meals served	176,572	184,776
Average cost per meal	\$ 5.76	\$ 5.84



**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***

The Board of Directors
Jefferson County Nursing Home
Dandridge, Tennessee

We have audited the financial statements of Jefferson County Nursing Home (Nursing Home), a component unit of Jefferson County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 9, 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 the Nursing Home is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jefferson 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 *Governmental Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, others within the Nursing Home and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Zattimare Black Morgan & Cain, PC

Knoxville, Tennessee
October 9, 2012