

OBION COUNTY NURSING HOME

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2012

**OBION COUNTY NURSING HOME
TABLE OF CONTENTS**

Introductory Section

Roster of Board Members and Management Officials..... 1

Financial Section

Independent Auditor's Report.....2
Financial Statements
 Statement of Net Assets.....4
 Statement of Revenues, Expenses and Change in Net Assets5
 Statement of Cash Flows6
 Notes to Financial Statements.....7

Supplementary Information Section

Schedule of General and Administrative Expenses 11

Internal Control and Compliance Section

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* 12
Schedule of Findings..... 14

INTRODUCTORY SECTION

OBION COUNTY NURSING HOME
ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS
June 30, 2012

Board Members

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

Management Officials

Tom Reddick, administrator
Kristi Davis, recorder

FINANCIAL SECTION



Certified Public Accountants

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AICPA Employee Benefit Plan Audit Quality Center
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Independent Auditor's Report

Board of Directors
Obion County Nursing Home
Union City, Tennessee

We have audited the accompanying financial statements of the Obion County Nursing Home, an enterprise fund of Obion County, Tennessee, as of and for the year ended June 30, 2012. These financial statements are the responsibility of Obion County Nursing Home's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present only the Obion County Nursing Home enterprise fund and do not purport to, and do not, present fairly the financial position of Obion County, Tennessee, and the changes in its financial position or, where applicable, its cash flows in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Obion County Nursing Home of Obion County, Tennessee, as of June 30, 2012, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Board of Directors
Obion County Nursing Home

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012, on our consideration of the Obion County Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Obion County Nursing Home's financial statements as a whole. The introductory section and supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of general and administrative expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Alexander Thompson Arnold PLLC

Union City, Tennessee
September 28, 2012

OBION COUNTY NURSING HOME
STATEMENT OF NET ASSETS
June 30, 2012

ASSETS

Current Assets		
Cash on hand and in bank		\$ 569,049
Accounts receivable		140,151
Inventory		<u>8,982</u>
Total current assets		718,182
Non-Current Assets		
Capital assets		
Land improvements	12,745	
Buildings and improvements	1,028,645	
Movable equipment	290,274	
Fixed equipment	120,506	
Less accumulated depreciation	<u>(1,191,144)</u>	
Total capital assets (net of accumulated depreciation)		<u>261,026</u>
Total assets		<u>979,208</u>

LIABILITIES

Current Liabilities		
Accounts payable		15,197
Patients' trust fund		5,587
Salaries payable		27,909
Accrued annual and sick leave		<u>72,191</u>
Total liabilities		<u>120,884</u>

NET ASSETS

Invested in capital assets	261,026
Unrestricted	<u>597,298</u>
Total net assets	<u>\$ 858,324</u>

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

**OBION COUNTY NURSING HOME
STATEMENT OF REVENUES, EXPENSES AND CHANGE
IN NET ASSETS**

For the Year Ended June 30, 2012

	<u>Amount</u>	<u>Percent</u>
Operating Revenues		
Medicaid patients	\$ 1,862,883	73.88
Private patients	597,675	23.70
Hospice	60,683	2.41
Bad debts	(1,054)	(0.04)
Other revenue	<u>1,183</u>	<u>0.05</u>
Total operating revenues	<u>2,521,370</u>	<u>100.00</u>
 Operating Expenses		
General and administrative expenses - schedule (pg. 11)	2,470,028	97.96
Depreciation	<u>47,647</u>	<u>1.89</u>
Total operating expenses	<u>2,517,675</u>	<u>99.85</u>
 Operating income	 3,695	 0.15
 Non-Operating Revenue		
Interest income	<u>3,938</u>	<u>0.16</u>
 Change in net assets	 7,633	 <u>0.31</u>
 Net assets - July 1, 2011	 <u>850,691</u>	
 Net assets - June 30, 2012	 <u>\$ 858,324</u>	

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

OBION COUNTY NURSING HOME
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

Cash Flows from Operating Activities

Cash received from patients	\$ 2,537,735
Cash paid to suppliers	(970,924)
Cash paid to employees	(1,488,640)
Other operating revenue	<u>1,183</u>
Net cash provided by operating activities	79,354

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(53,858)
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Cash Flows from Investing Activities

Interest on investments	<u>3,938</u>
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Net increase in cash **29,434**

Cash - July 1, 2011 539,615

Cash - June 30, 2012 \$ 569,049

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

Operating income		\$ 3,695
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	47,647	
Bad debts	1,054	
Decrease in accounts receivable	14,614	
Decrease in other receivables - Medicaid	3,832	
Increase in inventory	(4,474)	
Decrease in accounts payable	(1,048)	
Decrease in patients' trust fund	(1,952)	
Increase in salaries payable	8,119	
Increase in accrued annual and sick leave	<u>7,867</u>	
Total adjustments		<u>75,659</u>
Net cash provided by operating activities		<u><u>\$ 79,354</u></u>

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

**OBION COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

C. Assets, Liabilities, and Net Assets

Deposits and Investments

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

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

OBION COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Accounts Receivable

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

Inventory

At June 30, 2012, inventory was counted and valued at current replacement cost by management. Although this method is not recognized by generally accepted accounting principles, it does not materially distort the presentation of the financial statements.

Capital Assets

Capital assets are stated at cost, with the exception of the original building, which is recorded at estimated cost. The original building had an estimated cost of \$93,392, which has been fully depreciated. The Nursing Home has defined capital assets as assets with an initial, individual cost of more than \$3,000. Depreciation of fixed assets is computed using the straight-line method over the estimated useful lives of the assets.

Compensated Absences

Accumulated unpaid annual leave and sick leave are accrued at the end of each fiscal year. As of June 30, 2012, annual leave amounted to \$13,204 and sick leave was \$58,987, for a total accrual of \$72,191. All accrued leave has been reported as a current liability in the statement of net assets.

Net Assets

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

- Invested in capital assets – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any payables that are attributable to the acquisition, construction, or improvement of those assets
- Unrestricted – all other net assets that do not meet the description of the above category

NOTE 2 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2012, the Nursing Home had all deposits in interest-bearing checking accounts. There were no investments held by the Nursing Home at year end.

Custodial Credit Risk

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

OBION COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Nursing Home's agent in the Nursing Home's name, or by the Federal Reserve Banks acting as third party agents. As of June 30, 2012, all bank deposits were fully collateralized or insured.

B. Capital Assets

Capital assets activity during the year was as follows:

Description	Balance 7/01/11	Additions	Disposals	Balance 6/30/12
Capital assets, being depreciated				
Land improvements	\$ 12,745	\$ -	\$ -	\$ 12,745
Buildings and improvements	1,016,238	12,407	-	1,028,645
Movable equipment	248,823	41,451	-	290,274
Fixed equipment	<u>120,506</u>	<u>-</u>	<u>-</u>	<u>120,506</u>
Total capital assets being depreciated	<u>1,398,312</u>	<u>53,858</u>	<u>-</u>	<u>1,452,170</u>
Less accumulated depreciation				
Land improvements	12,745	-	-	12,745
Buildings and improvements	821,844	29,916	-	851,760
Movable equipment	198,799	16,457	-	215,256
Fixed equipment	<u>110,109</u>	<u>1,274</u>	<u>-</u>	<u>111,383</u>
Total accumulated depreciation	<u>1,143,497</u>	<u>47,647</u>	<u>-</u>	<u>1,191,144</u>
Total capital assets being depreciated, net	<u>\$ 254,815</u>	<u>\$ 6,211</u>	<u>\$ -</u>	<u>\$ 261,026</u>

NOTE 3 – OTHER INFORMATION

A. Pension Plan

As reported in Note 1, the Obion County Nursing Home is an enterprise fund of Obion County, Tennessee; therefore, the Nursing Home's pension information has been reported in the County's audit report. For the year ended June 30, 2012, the total covered payroll for the Nursing Home was \$1,112,798 and the pension contribution was \$70,440. An audit report for Obion County, Tennessee, can be requested at 1 Bill Burnett Circle, Union City, TN 38261 for additional pension disclosures.

B. Risk Management

It is the policy of the Obion County Nursing Home to purchase commercial insurance for the risk of losses to which it is exposed. These risks include general liability, property and automobile coverage and fidelity position bonds. Employee health and accident insurance is purchased through the County's commercial insurance policy. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**OBION COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012

The Nursing Home carries its workers' compensation coverage through the Tennessee Health Care Association (THCA), a self-insured trust fund. The THCA was established to be self-sustaining through member premiums. All members of the THCA must be approved for coverage and are jointly and severally liable for all claims of the association.

SUPPLEMENTARY INFORMATION SECTION

OBION COUNTY NURSING HOME
SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES
For the Year Ended June 30, 2012

Salaries	\$ 1,504,626
Insurance	189,912
Food	141,731
Taxes and licenses	126,439
Payroll taxes	111,922
Utilities	91,183
Retirement plan	70,440
Repairs and maintenance	55,416
Medical supplies	50,967
Minor equipment	21,084
Medical directors and advisory board fees	14,800
Other departmental supplies and expense	13,086
Linen and laundry supplies	12,623
Dietary supplies	11,081
Administrative supplies and expenses	10,489
Travel and seminars	10,022
Housekeeping supplies	8,581
Contract services	8,575
Legal and audit fees	6,301
Dues and subscriptions	4,461
Advertising and promotion	3,121
Miscellaneous expense	2,911
Maintenance supplies	<u>257</u>
Total general and administrative expenses	<u>\$ 2,470,028</u>

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION



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

Board of Directors
Obion County Nursing Home

We have audited the financial statements of the Obion County Nursing Home, an enterprise fund of Obion County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 28, 2012. Our report disclosed that the financial statements present only the Obion County Nursing Home enterprise fund and are not intended to present fairly the financial position of Obion County, Tennessee, and the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Obion County 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as item 97-1 to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Directors
Obion County Nursing Home

Compliance and Other Matters

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

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

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

Alexander Thompson Arnold PLLC

Union City, Tennessee
September 28, 2012

OBION COUNTY NURSING HOME
SCHEDULE OF FINDINGS
For the year ended June 30, 2012

97-1 Segregation of Duties

Condition: Due to the size of the staff, the Obion County Nursing Home cannot fully segregate the record-keeping, custodial, and authorization functions of its internal accounting controls for the year ended June 30, 2012.

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

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

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

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

The Administrator is responsible for:
posting from journal to ledger
balancing ledger
bank reconciliation
authorizing payments
financial statements
revenue journal

The Office Manager is responsible for:
posting to journal
sorting invoices and paying bills
payroll and employee benefit records
receiving payments and preparing deposits
patient ledger
patient billing

All checks require two signatures.

The Social Service Director is responsible for Patient Trust Funds.

Disposition of Prior Year Findings

97-1 Segregation of Duties - repeated