

WEAKLEY COUNTY NURSING HOME

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2012

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INTRODUCTORY SECTION

WEAKLEY COUNTY NURSING HOME

June 30, 2012

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Joe Farmer

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Julia Rich

Larry Taylor

Roger Stewart

ADMINISTRATIVE STAFF

David McBride, director

FINANCIAL SECTION



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Independent Auditor's Report

Board of Directors
Weakley County Nursing Home
Dresden, Tennessee

We have audited the accompanying financial statements of the Weakley County Nursing Home, a component unit of Weakley County, Tennessee, as of and for the year ended June 30, 2012. These financial statements are the responsibility of Weakley 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Weakley County Nursing Home, a component unit of Weakley 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2012, on our consideration of the Weakley 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 6 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Weakley 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 Budgetary Comparison – Budgetary Basis and Schedule of Operating Expenses are the responsibility of management and were derived from and relate 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

McKenzie, Tennessee
September 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Weakley County Nursing Home, we offer readers of the Nursing Home's financial statements this narrative overview and analysis of the financial activities of the Nursing Home for the fiscal year ended June 30, 2012.

FINANCIAL HIGHLIGHTS

- The assets of the Nursing Home exceeded its liabilities at the close of the most recent fiscal year by \$5.7 million (*net assets*). This is an increase of \$265,817 or 5% from last year.
- During the fiscal year ended June 30, 2012, the Nursing Home had income from operations of \$236,644. This is an increase of \$316,332 over the prior year's income from operations.
- The Nursing Home's operating revenues increased by 3.5% for the fiscal year ended June 30, 2012; its operating expenses decreased by 6.1%.
- The Nursing Home purchased capital assets of \$52,490 during the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Nursing Home's basic financial statements. The Nursing Home's basic financial statements are comprised of the following components:

1. Statement of Net Assets
2. Statement of Revenues, Expenses, and Changes in Net Assets
3. Statement of Cash Flows
4. Notes to Financial Statements

This report also contains supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Nursing Home's finances, in a manner similar to a private-sector business.

- The Statement of Net Assets presents information on all of the Nursing Home's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Nursing Home is improving or deteriorating.
- The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Nursing Home's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, compensated absences, etc.).

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes follow the basic financial statements in this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the Nursing Home, assets exceeded liabilities by \$5.7 million at the close of the most recent fiscal year. A large portion of the Nursing Home's net assets (24%) represents its investment in capital assets used to provide services to patients. The remaining balance of net assets (76%) represents unrestricted net assets. Therefore, the Nursing Home appears fairly strong based on the large percentage of net assets still available.

Condensed Statement of Net Assets

	June 30,		Increase
	2012	2011	(Decrease)
Current and other assets	\$ 4,697,239	\$ 4,349,971	\$ 347,268
Capital assets	1,338,007	1,424,108	(86,101)
Total assets	<u>6,035,246</u>	<u>5,774,079</u>	<u>261,167</u>
Current liabilities	335,915	347,240	(11,325)
Other liabilities	<u>37,132</u>	<u>30,457</u>	<u>6,675</u>
Total liabilities	<u>373,047</u>	<u>377,697</u>	<u>(4,650)</u>
Net assets:			
Invested in capital assets	1,338,007	1,424,108	(86,101)
Unrestricted	<u>4,324,192</u>	<u>3,972,274</u>	<u>351,918</u>
Total net assets	<u>\$ 5,662,199</u>	<u>\$ 5,396,382</u>	<u>\$ 265,817</u>

During the current fiscal year, the Nursing Home's net assets increased by \$265,817. This increase was due mainly to spending less because of decreases in Medicaid rates due to rate freezes and the uncertainty of the census or occupancy.

Statement of Revenues, Expenses, and Changes in Net Assets

Revenues exceeded expenses by \$265,817 for the current fiscal year. Total revenues increased by \$277,002 or 3.6% over last year. Total expenses decreased by \$47,109 or 6.1%. The increase in revenues was primarily due to an increase in Medicare census days. The decrease in expenses was attributable to the uncertainty of funding and possible decline in census.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	June 30,		Increase
	2012	2011	(Decrease)
Revenues:			
Medicaid I	\$ 3,699,397	\$ 3,760,591	\$ (61,194)
Private pay	1,085,422	906,710	178,712
Medicare A	2,537,868	2,413,427	124,441
Medicare B	219,154	304,346	(85,192)
Medicaid II	227,808	251,636	(23,828)
Other	205,085	68,801	136,284
Operating revenues	7,974,734	7,705,511	269,223
Operating expenses			
General and administrative	1,001,189	932,164	69,025
Employee benefits	1,300,752	1,273,540	27,212
Dietary	767,160	706,124	61,036
Housekeeping	213,147	243,527	(30,380)
Laundry and linen	190,514	190,273	241
Plant operation and maintenance	354,322	375,221	(20,899)
Medical and nursing	2,729,787	2,645,926	83,861
Recreational activities	55,557	63,064	(7,507)
Social services	82,024	50,336	31,688
Medicare expenses	905,047	1,164,557	(259,510)
Depreciation	138,591	140,467	(1,876)
Total expenses	7,738,090	7,785,199	(47,109)
Operating income (loss)	236,644	(79,688)	316,332
Non-operating revenues			
Interest	29,173	21,394	7,779
Increase (decrease) in net assets	265,817	(58,294)	324,111
Net assets - beginning	5,396,382	5,454,676	(58,294)
Net assets - ending	\$ 5,662,199	\$ 5,396,382	\$ 265,817

Budgetary highlights - The Nursing Home made slight revisions to the original appropriations approved by the Board.

- Actual revenues were \$384,126 less than budgeted revenues.
- Actual expenses were \$288,677 less than budgeted revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - At the end of Fiscal Year 2012, the Nursing Home had invested \$1,338,007 net of accumulated depreciation, in a variety of capital assets. Capital asset additions for the year were \$52,490 and depreciation on capital assets was \$138,591, for a net decrease of \$86,101. Additional information on the Nursing Home's capital assets can be found in Notes 1 and 2 beginning on page 11 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The financial cuts in the Medicaid and Medicare budgets have seriously affected the retention and hiring of the front line employees that the Nursing Home must have in order to provide the care and services that our clients require based on their needs. It is more and more difficult to remain competitive in pay and benefits for the licensed Nursing Assistants and Licensed and Registered Nurses.

The acuity level requirement for nursing home admission is much higher today than it was a few months ago. The more stringent Medicaid eligibility requirements make it much more difficult to be approved physically for nursing home care. Also, a much greater emphasis is now placed on residents returning to their homes after a stay in the facility with the resident being promised that all their needs will be met by Home and Community Based Services.

Also, more and more Medicare recipients now have an HMO assigned to them, requiring prior approval for therapy services prior to a Medicare admission and then, it is usually approved for much shorter stays.

These are just a few of the challenges that the facility currently faces. All of these things affect the financial strength of the Nursing Home; therefore, it is management's belief that it will be much more difficult to remain financially solvent in the future.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Nursing Home's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Nursing Home's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Nursing Home Administrator, Weakley County Nursing Home, P.O. Box 787, Dresden, TN 38225.

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

ASSETS

Current assets

Cash on hand and in bank		\$ 2,313,531
Certificates of deposit		623,125
Accounts receivable		1,638,432
Inventory - supplies		74,787
Prepaid insurance		9,866
Uniform cost due from employees		<u>366</u>
Total current assets		4,660,107

Capital assets

Land	2,371	
Land improvements	64,212	
Buildings and improvements	2,917,234	
Equipment	1,265,145	
Vehicles	31,818	
Other capital assets	<u>40,815</u>	
Total capital assets	4,321,595	
Less: accumulated depreciation	<u>(2,983,588)</u>	
Net capital assets		1,338,007

Restricted assets

Cash on hand and in bank - patient trust fund		<u>37,132</u>
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Total assets

6,035,246

LIABILITIES

Current liabilities

Accounts payable	167,157	
Nursing home tax payable	25,217	
Accrued salaries and wages	42,497	
Employee retirement and insurance payable	41,310	
Accrued vacation	<u>59,734</u>	
Total current liabilities	335,915	

Other liabilities

Patient trust fund	<u>37,132</u>	
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Total liabilities

373,047

NET ASSETS

Invested in capital assets	1,338,007	
Unrestricted	<u>4,324,192</u>	

Total net assets

\$ 5,662,199

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

WEAKLEY COUNTY NURSING HOME
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

Operating income

Medicaid I, net of contractual	\$ 3,418,727
Medicaid I - patient liability	280,670
Private pay	1,085,422
Hospice, net of contractual	183,487
Medicare A, net of contractual and bad debts	2,537,868
Medicare B, net of contractual	219,154
Medicaid II, net of contractual	214,732
Medicaid II - patient liability	13,076
Meals on Wheels, net of contractual	8,608
Respite Medicaid	2,538
Adult Day Care	72
Miscellaneous	<u>10,380</u>
Total operating income	7,974,734

Operating expenses

General and administrative	1,001,189
Employee benefits	1,300,752
Dietary	767,160
Housekeeping	213,147
Laundry and linen	190,514
Plant operation and maintenance	354,322
Medical and nursing	2,729,787
Recreational activities	55,557
Social services	82,024
Medicare expenses	905,047
Depreciation	<u>138,591</u>
Total operating expenses	<u>7,738,090</u>

Income from operations

236,644

Nonoperating income

Interest income	<u>29,173</u>
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Change in net assets

265,817

Net assets - beginning of year

5,396,382

Net assets - end of year

\$ 5,662,199

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

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

Cash flows from operating activities:

Receipts from patient charges	\$ 8,235,218	
Payments to vendors	(2,658,360)	
Payments to employees and for employee benefits	<u>(4,952,464)</u>	
Net cash provided by operating activities		624,394

Cash flows from capital and related financing activities:

Acquisition of building improvements and equipment		(52,490)
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Cash flows from investing activities:

Purchase of certificate of deposit	(7,754)	
Interest received	<u>29,173</u>	
Net cash provided by investing activities		<u>21,419</u>

Net increase in cash and cash equivalents		593,323
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Cash and cash equivalents - beginning of year		<u>1,720,208</u>
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Cash and cash equivalents - end of year		<u><u>\$ 2,313,531</u></u>
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The accompanying notes are an integral part of these financial statements.

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

**Reconciliation of operating income to net cash provided
by operating activities:**

Income from operations		\$ 236,644
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	138,591	
Bad debts written off	164,339	
Changes in operating assets and liabilities:		
Accounts receivable, net	96,145	
Accounts payable	(11,748)	
Accrued salaries and wages	1,038	
Employee retirement and insurance payable	<u>(615)</u>	
		<u>387,750</u>
 Net cash provided by operating activities		 <u>\$ 624,394</u>

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Weakley County Nursing Home is a reporting component of Weakley County, Tennessee, and is, therefore, included in their audit report. The board of directors of Weakley County Nursing Home is comprised of county commissioners who are appointed to be on the board. Before the issuance of any debt instruments, the Nursing Home must obtain the approval of the County Commission. The Weakley County Nursing Home is located in Dresden, Tennessee. The Nursing Home mainly serves the residents of Weakley County by rendering intermediate and skilled care to patients.

B. Basis of Accounting

The Weakley County Nursing Home is a governmental unit and uses fund accounting. The Nursing Home is an enterprise fund in that operations are accounted for in a manner similar to a private business, where the intent of the governing body is that the costs of operations (including depreciation) will be recovered through user charges.

The Nursing Home uses the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned and expenses as incurred.

GASB No. 20 requires that governments' proprietary activities apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins. Governments are given the option whether or not to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. Weakley County Nursing Home has elected not to implement FASB Statements and Interpretations issued after November 30, 1989.

C. Depreciation

Fixed assets are recorded at historical cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives for assets are as follows:

<u>Asset Classification</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	5 – 40 years
Equipment	5 – 15 years
Vehicles	5 years
Other Fixed Assets	7 – 10 years

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets' lives are not capitalized. Typically, purchases of less than \$250 are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

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

June 30, 2012

D. Inventory

Inventories, consisting of supplies held for consumption, are valued at cost, using the First-in, First-out (FIFO) method. Inventories are adjusted to physical counts at the end of each fiscal year.

E. 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 bonds that are attributable to the acquisition, construction, or improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. The Nursing Home presents only invested in capital assets, as there is no debt related to capital assets.
- Unrestricted – All other net assets that do not meet the description of the above categories.

F. Cash and Cash Equivalents

Cash and cash equivalents as used on the statement of cash flows represent cash on hand and cash in bank. It does not include certificates of deposit or patient trust funds. For purposes of the Statement of Cash Flows, the Nursing Home considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

G. Allowance for Doubtful Accounts

An allowance for doubtful accounts has not been reflected as of the balance sheet date. The direct write-off of bad debts is made at the end of each fiscal year. The direct write-off method is not in accordance with generally accepted accounting principles, but the effect on the financial statements is immaterial. For the current year, \$164,339 in bad debts were written off and recoveries of \$80,974 were collected.

H. Compensated Absences

Employees are entitled to paid vacation and sick days depending on length of service and other factors. Only full-time employees are entitled to these benefits. The policy of the Nursing Home is to pay eligible employees up to fifteen days worth of vacation time upon termination assuming they have fifteen days of vacation time accrued. An accrual for vacation pay has been made on the financial statements presented. However, sick pay has not been accrued since it is payable only for those who are currently employed with no benefits due upon termination of any employee.

I. Budget

The Nursing Home adopts a budget prior to the beginning of each fiscal year. The budget, as amended, is presented against operations in the statement of budgetary comparison. Any expenditure over budgeted amounts requires an amendment to the budget by the board of directors.

**WEAKLEY COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

NOTE 2 – DETAILED NOTES ON ACCOUNTS

A. Changes in Capital Assets

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

Description	Balance 7/01/11	Additions	Disposals	Balance 6/30/12
Capital assets, not being depreciated				
Land	\$ 2,371	\$ -	\$ -	\$ 2,371
Capital assets, being depreciated				
Land improvements	64,212	-	-	64,212
Building	2,897,468	19,766	-	2,917,234
Equipment	1,232,421	32,724	-	1,265,145
Vehicles	31,818	-	-	31,818
Other	40,815	-	-	40,815
Total capital assets being depreciated	<u>4,266,734</u>	<u>52,490</u>	<u>-</u>	<u>4,319,224</u>
Less accumulated depreciation				
Land improvements	38,029	1,897	-	39,926
Building	1,697,851	78,738	-	1,776,589
Equipment	1,047,951	53,656	-	1,101,607
Vehicles	20,351	4,300	-	24,651
Other	40,815	-	-	40,815
Total accumulated depreciation	<u>2,844,997</u>	<u>138,591</u>	<u>-</u>	<u>2,983,588</u>
Net capital assets being depreciated	<u>1,421,737</u>	<u>(86,101)</u>	<u>-</u>	<u>1,335,636</u>
Total capital assets, net	<u>\$ 1,424,108</u>	<u>\$ (86,101)</u>	<u>\$ -</u>	<u>\$ 1,338,007</u>

NOTE 3 – OTHER INFORMATION

A. Deposits and Investments

Custodial Credit Risk

The Nursing Home's policies limit deposits and investments to those instruments allowed by applicable state laws. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Nursing Home's agent in the Nursing Home's name, or by the Federal Reserve Banks acting as third party agents. State statute also authorizes the Nursing Home to invest in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing

WEAKLEY COUNTY NURSING HOME NOTES TO FINANCIAL STATEMENTS

June 30, 2012

obligations of the United States or its agencies as the underlying securities, the state pooled investment fund, and mutual funds. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2012, all bank deposits were fully collateralized or insured.

B. Risk Management

Until February 1, 2001, Weakley County Nursing Home had chosen to cover its employees' health insurance claims below \$20,000 for each employee up to a maximum total annual exposure amount for the Nursing Home, which is based on a calculation that changes as number of participants and premium amounts change. The Nursing Home had obtained a stop/loss commercial insurance policy to cover claims beyond this liability. As of February 1, 2001, the Nursing Home changed to commercial health insurance for its employees through Blue Cross Blue Shield through the State of Tennessee for everything except paid prescription cards.

Weakley County Nursing Home felt it was more economically feasible to be covered under Weakley County's insurance policies for workers' compensation, property, casualty, and automobile insurance. Weakley County is covered under The Local Government Property and Casualty Fund (LGPCF). The Nursing Home pays an annual premium to the Fund for coverage under the above areas. The LGPCF has self-insured retention (SIR) of \$100,000 for each and every loss and/or claim and/or occurrence.

Weakley County Nursing Home continues to carry commercial insurance for all other risks of loss, including general liability and fidelity bonding. Settled claims have not exceeded commercial insurance coverage in any of the past three years.

C. Pension Plan

Certain employees of the Weakley County 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 in 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 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 Weakley County Nursing Home through Weakley County, Tennessee 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

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

June 30, 2012

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.

Funding Policy

Weakley County Nursing Home has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0% of annual covered payroll.

Weakley County Nursing Home is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2012, was 12.06% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Weakley County Nursing Home is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2012, the Weakley County Nursing Home made contributions to the TCRS in the amount of \$344,948. Weakley County Nursing Home's payroll for employees covered by the TCRS for the year ended June 30, 2012, was \$2,860,264. The total payroll for the year was \$3,529,512. The Weakley County Nursing Home's operations are reported in the audit report of Weakley County, Tennessee. For details and required disclosures concerning Weakley County's participation in TCRS, refer to the County's separate audit report.

SUPPLEMENTARY INFORMATION SECTION

WEAKLEY COUNTY NURSING HOME
STATEMENT OF BUDGETARY COMPARISON - BUDGETARY BASIS
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Over
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Under)</u>
Operating income				
Medicaid I, net of contractual	\$3,276,322	\$3,291,846	\$3,418,727	\$ 126,881
Medicaid I - patient liability	-	-	280,670	280,670
Private pay	1,608,902	1,810,654	1,085,422	(725,232)
Hospice , net of contractual	35,000	143,500	183,487	39,987
Medicare A, net of contractual and bad debts	3,435,190	3,097,334	2,537,868	(559,466)
Medicare B, net of contractual	-	-	219,154	219,154
Medicaid II, net of contractual	-	-	214,732	214,732
Medicaid II - patient liability	-	-	13,076	13,076
Meals on Wheels, net of contractual	-	-	8,608	8,608
Respite Medicaid	-	-	2,538	2,538
Adult Day Care	-	-	72	72
Miscellaneous income	-	15,526	10,380	(5,146)
Total operating income	<u>8,355,414</u>	<u>8,358,860</u>	<u>7,974,734</u>	<u>(384,126)</u>
Operating expenses - schedule attached				
General and administrative	974,800	1,022,624	1,001,189	(21,435)
Employee benefits	1,365,943	1,320,643	1,300,752	(19,891)
Dietary	755,100	767,600	767,160	(440)
Housekeeping	248,000	235,500	213,147	(22,353)
Laundry and linen	208,000	208,000	190,514	(17,486)
Plant operation and maintenance	474,990	474,990	354,322	(120,668)
Medical and nursing	2,843,165	2,766,632	2,729,787	(36,845)
Recreational activities	70,000	60,000	55,557	(4,443)
Social services	89,750	84,002	82,024	(1,978)
Medicare expenses	958,700	958,200	905,047	(53,153)
Depreciation	139,000	128,576	138,591	10,015
Total operating expenses	<u>8,127,448</u>	<u>8,026,767</u>	<u>7,738,090</u>	<u>(288,677)</u>
Income from operations	<u>227,966</u>	<u>332,093</u>	<u>236,644</u>	<u>(95,449)</u>
Non-operating income (expense)				
Interest income	<u>20,000</u>	<u>21,394</u>	<u>29,173</u>	<u>7,779</u>
Net income	<u>\$ 247,966</u>	<u>\$ 353,487</u>	<u>\$ 265,817</u>	<u>\$ (87,670)</u>

See independent auditor's report

**WEAKLEY COUNTY NURSING HOME
SCHEDULE OF OPERATING EXPENSES**

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
General and administrative				
Administrator's salary	\$ 86,975	\$ 89,500	\$ 89,307	\$ (193)
Office salaries	177,161	180,353	180,511	158
Administrator's longevity	-	500	500	-
Office staff longevity	-	2,307	2,307	-
Office supplies	26,000	26,000	25,628	(372)
Board member expense	6,600	4,600	4,298	(302)
Licenses and dues	318,500	318,500	316,754	(1,746)
Professional services	81,000	102,000	96,008	(5,992)
Professional training and education	12,500	6,500	5,905	(595)
Telephone	19,000	19,000	18,219	(781)
Insurance	175,964	205,764	202,253	(3,511)
Advertising	31,000	30,000	26,504	(3,496)
Employee recruitment	2,000	2,000	741	(1,259)
Employee physicals	4,300	4,300	3,430	(870)
Vending	-	-	129	129
Employees expense	7,500	6,000	5,270	(730)
Employee benefit expense	22,000	20,000	17,995	(2,005)
Resident benefit expense	2,300	3,300	2,226	(1,074)
Miscellaneous	2,000	2,000	3,204	1,204
Total general and administrative	<u>\$ 974,800</u>	<u>\$ 1,022,624</u>	<u>\$ 1,001,189</u>	<u>\$ (21,435)</u>
Employee benefits				
Payroll taxes - FICA and unemployment	\$ 310,323	\$ 291,723	\$ 288,130	\$ (3,593)
Group insurance	700,000	673,300	666,526	(6,774)
Life insurance	1,610	1,610	1,148	(462)
Retirement	354,010	354,010	344,948	(9,062)
Total employee benefits	<u>\$ 1,365,943</u>	<u>\$ 1,320,643</u>	<u>\$ 1,300,752</u>	<u>\$ (19,891)</u>
Dietary				
Salaries	\$ 381,100	\$ 370,546	\$ 368,410	\$ (2,136)
Food	300,000	314,000	311,696	(2,304)
Supplies	34,000	29,500	31,315	1,815
Purchased services	6,000	7,000	8,223	1,223
Dietary supplements	34,000	40,500	41,462	962
Dietary longevity	-	6,054	6,054	-
Total dietary	<u>\$ 755,100</u>	<u>\$ 767,600</u>	<u>\$ 767,160</u>	<u>\$ (440)</u>

See independent auditor's report

**WEAKLEY COUNTY NURSING HOME
SCHEDULE OF OPERATING EXPENSES**

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Housekeeping				
Salaries	\$ 212,000	\$ 196,849	\$ 177,493	\$ (19,356)
Supplies	36,000	36,000	33,004	(2,996)
Housekeeping longevity	-	2,651	2,650	(1)
Total housekeeping	<u>\$ 248,000</u>	<u>\$ 235,500</u>	<u>\$ 213,147</u>	<u>\$ (22,353)</u>
Laundry and linen				
Salaries	\$ 170,000	\$ 165,648	\$ 153,670	\$ (11,978)
Supplies	22,000	25,000	24,051	(949)
Linen	16,000	16,000	11,441	(4,559)
Laundry longevity	-	1,352	1,352	-
Total laundry and linen	<u>\$ 208,000</u>	<u>\$ 208,000</u>	<u>\$ 190,514</u>	<u>\$ (17,486)</u>
Plant operation and maintenance				
Salaries	\$ 64,890	\$ 67,559	\$ 65,678	\$ (1,881)
Gas	60,000	60,000	50,035	(9,965)
Electricity	100,000	100,000	97,491	(2,509)
Water and sewage	52,000	59,000	54,836	(4,164)
TV cable/satellite	9,000	9,000	7,846	(1,154)
Maintenance and repairs	19,500	19,500	14,383	(5,117)
Supplies	8,600	8,600	21,768	13,168
Purchased services	40,000	47,000	30,310	(16,690)
Vehicle maintenance	3,500	6,000	5,484	(516)
New equipment	72,000	72,000	-	(72,000)
Facility improvements	45,000	24,800	5,460	(19,340)
Maintenance longevity	-	1,031	1,031	-
Miscellaneous	500	500	-	(500)
Total plant operation and maintenance	<u>\$ 474,990</u>	<u>\$ 474,990</u>	<u>\$ 354,322</u>	<u>\$ (120,668)</u>
Medical and nursing				
Salaries - RN	\$ 241,500	\$ 255,076	\$ 246,115	\$ (8,961)
Salaries - LPN	1,073,527	1,034,641	1,035,810	1,169
Salaries - aides, orderlies	1,277,138	1,196,056	1,176,457	(19,599)
Supplies	223,000	238,000	231,277	(6,723)
Purchased services	28,000	28,000	25,269	(2,731)
Nursing longevity	-	14,859	14,859	-
Total medical and nursing	<u>\$ 2,843,165</u>	<u>\$ 2,766,632</u>	<u>\$ 2,729,787</u>	<u>\$ (36,845)</u>

See independent auditor's report

**WEAKLEY COUNTY NURSING HOME
SCHEDULE OF OPERATING EXPENSES**

For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
Recreational activities				
Salaries	\$ 61,000	\$ 50,599	\$ 48,034	\$ (2,565)
Supplies	2,500	2,500	1,955	(545)
Special events	6,500	6,500	5,167	(1,333)
Activity longevity	-	401	401	-
Total recreational activities	<u>\$ 70,000</u>	<u>\$ 60,000</u>	<u>\$ 55,557</u>	<u>\$ (4,443)</u>
Social service				
Salaries	\$ 89,000	\$ 83,000	\$ 81,245	\$ (1,755)
Supplies	750	750	528	(222)
Social service longevity	-	252	251	(1)
Total social services	<u>\$ 89,750</u>	<u>\$ 84,002</u>	<u>\$ 82,024</u>	<u>\$ (1,978)</u>
Medicare/Medicaid II expenses				
Contract - physical therapy	\$ 110,000	\$ 95,000	\$ 93,746	\$ (1,254)
Contract - speech therapy	50,000	38,500	38,986	486
Contract - occupational therapy	56,000	38,000	38,575	575
Billable medical supplies	4,700	12,200	9,476	(2,724)
Pharmacy	225,000	273,000	244,569	(28,431)
Lab - Medicare	13,000	17,000	14,182	(2,818)
X-Ray - Medicare	8,000	13,000	11,075	(1,925)
Other insurance - physical therapy	16,000	2,000	1,059	(941)
Other insurance - speech therapy	4,500	1,500	969	(531)
Other insurance - occupational therapy	5,000	2,000	1,258	(742)
Medical supplies - Medicaid II	500	-	-	-
MCA - contract - physical therapy	206,000	221,000	217,504	(3,496)
MCA - contract - speech therapy	100,000	100,000	94,838	(5,162)
MCA - contract - occupational therapy	160,000	145,000	138,810	(6,190)
Total Medicare/Medicaid II expenses	<u>\$ 958,700</u>	<u>\$ 958,200</u>	<u>\$ 905,047</u>	<u>\$ (53,153)</u>
Depreciation	<u>\$ 139,000</u>	<u>\$ 128,576</u>	<u>\$ 138,591</u>	<u>\$ 10,015</u>

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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
Weakley County Nursing Home

We have audited the financial statements of the Weakley County Nursing Home, a component unit of Weakley County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 19, 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 Weakley 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 and recommendations as item 96-1 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
Weakley County Nursing Home

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Weakley 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 Weakley County Nursing Home's response to the finding identified in our audit is described in the accompanying schedule of findings and recommendations. 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

McKenzie, Tennessee
September 19, 2012

WEAKLEY COUNTY NURSING HOME
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For the year ended June 30, 2012

96-1 Segregation of Duties

Condition: Due to the size of the staff, the Nursing Home could not fully segregate the record-keeping, custodial, and authorization functions of its internal accounting controls.

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: Internal control procedures over every transaction cycle need to be monitored to ensure that each is properly segregated as much as possible between employees.

Response: *The facility will continue to work toward fully segregating accounting and bookkeeping functions that will lessen the risk of errors and irregularities. Management will continue to monitor for any problems that could arise.*