

OBION COUNTY NURSING HOME

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2013

**OBION COUNTY NURSING HOME
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INTRODUCTORY SECTION

OBION COUNTY NURSING HOME
ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS
June 30, 2013

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

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Certified Public Accountants
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Independent Auditor's Report

Board of Directors
Obion County Nursing Home
Union City, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Obion County Nursing Home, an enterprise fund of Obion County, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Nursing Home's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Obion County Nursing Home as of June 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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.

Other Matters

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Obion County Nursing Home's basic financial statements. The introductory section and supplementary information section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 schedule of operating expenses is fairly stated in all material respects in relation to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2013, 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* in considering Obion County Nursing Home's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Union City, Tennessee
October 16, 2013

OBION COUNTY NURSING HOME
STATEMENT OF NET POSITION
June 30, 2013

ASSETS

Current Assets

Cash on hand and in bank	\$ 319,077
Accounts receivable	552,984
Inventory	<u>7,945</u>
Total current assets	880,006

Non-Current Assets

Capital assets	
Land improvements	12,745
Buildings and improvements	1,051,959
Furniture and equipment	129,747
Departmental equipment	216,920
Other fixed assets	120,506
Less accumulated depreciation	<u>(1,237,507)</u>
Total capital assets (net of accumulated depreciation)	<u>294,370</u>

Total assets 1,174,376

LIABILITIES

Current Liabilities

Accounts payable	55,991
Payroll withholdings	248
Patients' trust fund	18,274
Salaries payable	36,807
Accrued annual and sick leave	<u>69,610</u>

Total liabilities 180,930

NET POSITION

Investment in capital assets	294,370
Unrestricted	<u>699,076</u>

Total net position \$ 993,446

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

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

For the Year Ended June 30, 2013

	<u>Amount</u>	<u>Percent</u>
Operating Revenues		
Medicaid patients	\$ 1,767,248	59.75
Medicare patients	632,393	21.38
Private patients	566,464	19.15
Hospice	3,974	0.13
Bad debts	(13,570)	(0.46)
Other revenue	<u>1,445</u>	<u>0.05</u>
Total operating revenues	<u>2,957,954</u>	<u>100.00</u>
 Operating Expenses		
Operating expenses - schedule (pg. 11)	2,778,451	93.93
Depreciation	<u>46,363</u>	<u>1.57</u>
Total operating expenses	<u>2,824,814</u>	<u>95.50</u>
 Operating income	 133,140	 4.50
 Non-Operating Revenue		
Interest income	<u>1,982</u>	<u>0.07</u>
 Change in net position	 135,122	 <u>4.57</u>
 Net position - July 1, 2012	 <u>858,324</u>	
 Net position - June 30, 2013	 <u>\$ 993,446</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, 2013

Cash Flows from Operating Activities

Cash received from patients	2,556,363
Cash paid to suppliers	(1,255,948)
Cash paid to employees	(1,474,107)
Other operating revenue	<u>1,445</u>
Net cash used by operating activities	(172,247)

Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(79,707)
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Cash Flows from Investing Activities

Interest on investments	<u>1,982</u>
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Net decrease in cash **(249,972)**

Cash - July 1, 2012 569,049

Cash - June 30, 2013 \$ 319,077

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:

Operating income		\$ 133,140
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	46,363	
Bad debts	13,570	
Increase in accounts receivable	(426,403)	
Decrease in inventory	1,037	
Increase in accounts payable	40,794	
Increase in payroll withholdings	248	
Increase in patients' trust fund	12,687	
Increase in salaries payable	8,898	
Decrease in accrued annual and sick leave	<u>(2,581)</u>	
Total adjustments		<u>(305,387)</u>
Net cash used by operating activities		<u>\$ (172,247)</u>

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

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

June 30, 2013

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. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Generally accepted accounting principles for proprietary fund types are those applicable to similar businesses in the private sector and are reported using the economic resources measurement focus, which reports all inflows, outflows, and balances affecting or reflecting an entity's net position. 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.

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 are those expenses that are essential to the primary operations of the fund and include 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 non-appropriatory budget annually as a management tool. Proprietary funds are not required to adopt annual budgets.

C. Assets, Liabilities, and Net Position

Cash 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.

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.

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

June 30, 2013

Inventory

At June 30, 2013, 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, 2013, annual leave amounted to \$14,944 and sick leave was \$54,666, for a total accrual of \$69,610. All accrued leave has been reported as a current liability in the statement of net assets.

Impact of recently issued accounting pronouncements

In December 2010, the GASB issued Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in non-governmental pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement is effective for periods beginning after December 15, 2011. The adoption of GASB 62 had no impact on the Nursing Home's financial statements.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows and inflows of resources, which are distinct from assets and liabilities, and also renames as net position, rather than net assets, the residual of all other elements presented in a statement of financial position. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. As of June 30, 2013, the Nursing Home had no deferred outflows or deferred inflows of resources.

Net position flow assumption

Sometimes the Nursing Home will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Nursing Home's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE 2 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2013, the Nursing Home had all deposits in interest-bearing checking accounts. There were no investments held by the Nursing Home at year end.

OBION COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 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, 2013, all bank deposits were fully collateralized or insured.

B. Capital Assets

Capital assets activity during the year was as follows:

Description	Balance 7/01/12	Additions	Disposals	Balance 6/30/13
Capital assets, being depreciated				
Land improvements	\$ 12,745	\$ -	\$ -	\$ 12,745
Buildings and improvements	1,028,645	23,314	-	1,051,959
Furniture and equipment	110,050	19,697	-	129,747
Departmental equipment	180,224	36,696	-	216,920
Other fixed assets	120,506	-	-	120,506
Total capital assets being depreciated	<u>1,452,170</u>	<u>79,707</u>	<u>-</u>	<u>1,531,877</u>
Less accumulated depreciation				
Land improvements	12,745	-	-	12,745
Buildings and improvements	851,760	27,920	-	879,680
Furniture and equipment	83,884	8,502	-	92,386
Departmental equipment	131,372	8,666	-	140,038
Other fixed assets	111,383	1,275	-	112,658
Total accumulated depreciation	<u>1,191,144</u>	<u>46,363</u>	<u>-</u>	<u>1,237,507</u>
Total capital assets being depreciated, net	<u>\$ 261,026</u>	<u>\$ 33,344</u>	<u>\$ -</u>	<u>\$ 294,370</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, 2013, the total covered payroll for the Nursing Home was \$1,111,236 and the pension contribution was \$71,071. An audit report for Obion County, Tennessee, can be requested at 1 Bill Burnett Circle, Union City, TN 38261 for additional pension disclosures.

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

June 30, 2013

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.

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 OPERATING EXPENSES**

For the Year Ended June 30, 2013

		<u>Percent of Total</u>
General and administrative expenses		
Salary - administrator	\$ 99,410	3.52
Salaries - administrative	59,174	2.09
Freight and postage	1,211	0.04
Office supplies and expense	13,570	0.48
Minor equipment	3,530	0.12
Conventions and seminars	9,355	0.33
Travel	3,633	0.13
Advisory board fees and expense	8,100	0.29
Pension plan costs	71,071	2.52
Employee insurance	123,796	4.38
Employee payroll taxes	110,179	3.90
Workers compensation insurance	48,518	1.72
Unemployment expense	1,955	0.07
Employee activities and awards	3,860	0.14
Extra labor	4,950	0.18
Liability insurance	5,600	0.20
Court reporter	1,200	0.04
Contract services - payroll	853	0.03
Taxes and licenses	126,000	4.46
Dues and subscriptions	4,570	0.16
Legal and audit fees	17,071	0.60
Advertising and promotion	4,519	0.16
Telephone	5,763	0.20
Contract services - buying	1,248	0.04
Total general and administrative expenses	<u>729,136</u>	<u>25.80</u>
Medical and Nursing		
Salaries	865,388	30.64
Minor equipment	6,587	0.23
Nurses notes and forms	225	0.01
Medical supplies	48,600	1.72
Medical director	9,600	0.34
Pharmacy consultant	1,512	0.05
Total medical and nursing expenses	<u>931,912</u>	<u>32.99</u>
Patient Activities		
Salaries	35,110	1.24
Special events	757	0.03
Supplies	12,585	0.45
Total patient activities	<u>48,452</u>	<u>1.72</u>
Social Services		
Salaries	38,645	1.37
Dietary		
Salaries	167,910	5.94
Raw food	148,743	5.27
Supplies	9,926	0.35
Consultant	1,760	0.06
Total dietary expenses	<u>328,339</u>	<u>11.62</u>

See independent auditor's report

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

For the Year Ended June 30, 2013

		<u>Percent of Total</u>
Housekeeping		
Salaries	108,182	3.83
Minor equipment	204	0.01
Supplies	<u>6,475</u>	<u>0.23</u>
Total housekeeping expenses	<u>114,861</u>	<u>4.07</u>
Laundry		
Salaries	69,068	2.45
Supplies	2,136	0.08
Linen and bedding	<u>7,643</u>	<u>0.27</u>
Total laundry expenses	<u>78,847</u>	<u>2.80</u>
Maintenance		
Salaries	37,785	1.33
Repair and maintenance	50,450	1.79
Minor equipment	1,325	0.05
Travel	33	-
Supplies	1,079	0.04
Contract services - BFI	2,605	0.09
Contract services - fire	2,250	0.08
Pest control	827	0.03
Fuel and gas	35,708	1.26
Electricity	36,821	1.30
Waste disposal service	7,576	0.27
Water and sewage	<u>6,161</u>	<u>0.22</u>
Total maintenance expenses	<u>182,620</u>	<u>6.46</u>
Other operating expenses		
Skilled - pharmacy	21,653	0.77
Skilled - lab	1,062	0.04
PT - private	3,946	0.14
PT - Part A	27,240	0.96
PT - Part B	77,056	2.73
OT - private	3,799	0.13
OT - Part A	20,722	0.73
OT - Part B	77,279	2.74
ST - private	997	0.04
ST - Part A	19,982	0.71
ST - Part B	69,122	2.45
Medicare Part B fees	<u>2,781</u>	<u>0.09</u>
Total other operating expenses	<u>325,639</u>	<u>11.53</u>
Depreciation	<u>46,363</u>	<u>1.64</u>
Total operating expenses	<u>\$ 2,824,814</u>	<u>100.00</u>

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION

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Tennessee Society of Certified Public Accountants
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**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Obion County Nursing Home

We have audited, 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, the financial statements of Obion County Nursing Home, an enterprise fund of Obion County, Tennessee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Nursing Home's basic financial statements, and have issued our report thereon dated October 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Obion County Nursing Home's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Obion County Nursing Home's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 97-1, that we consider to be significant deficiencies.

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Obion County Nursing Home in a separate letter dated October 16, 2013.

Obion County Nursing Home's Response to Finding

The Obion County Nursing Home's response to the finding identified in our audit is described in the accompanying schedule of findings. The Nursing Home's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Union City, Tennessee
October 16, 2013

OBION COUNTY NURSING HOME
SCHEDULE OF FINDINGS
For the year ended June 30, 2013

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, 2013.

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