

WEAKLEY COUNTY NURSING HOME

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2014

**WEAKLEY COUNTY NURSING HOME
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INTRODUCTORY SECTION

WEAKLEY COUNTY NURSING HOME

June 30, 2014

BOARD OF COMMISSIONERS

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Julia Rich
Larry Taylor
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ADMINISTRATIVE STAFF

David McBride, Administrator
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FINANCIAL SECTION

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Independent Auditor's Report

Board of Commissioners
Weakley County Nursing Home
Dresden, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Weakley County Nursing Home, a component unit of Weakley County, Tennessee, as of and for the year ended June 30, 2014, 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 Weakley County Nursing Home as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 7 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Weakley 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 September 16, 2014 on our consideration of the Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Weakley County Nursing Home's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

McKenzie, Tennessee
September 16, 2014

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, 2014.

FINANCIAL HIGHLIGHTS

- The assets of the Nursing Home exceeded its liabilities at the close of the most recent fiscal year by \$4.9 million (*net position*), which is the same as the prior year's net position. This is the result of total revenues and expenditures being substantially equal for the year ended June 30, 2014.
- During the fiscal year ended June 30, 2014, the Nursing Home had a loss from operations of \$23,782. This is a decrease of \$208,276 from the prior year's income from operations.
- The change in net position for the current year was a decrease of \$3,058, compared to an increase of \$208 thousand in the prior year.
- The Nursing Home purchased capital assets of \$134,841 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 Position
2. Statement of Revenues, Expenses, and Changes in Net Position
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 Position presents information on all of the Nursing Home's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Position presents information showing how the Nursing Home's net position changed during the most recent fiscal year. All changes in net position 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 receivables, 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 Position

As noted earlier, net position 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 \$4.9 million at the close of the most recent fiscal year. A large portion of the Nursing Home's net position (28%) represents its investment in capital assets used to provide services to patients. The remaining balance of net position (72%) represents unrestricted net position. Therefore, the Nursing Home appears fairly strong based on the large percentage of net position still available.

During the current fiscal year, the Nursing Home's net position decreased by \$3,058. Assets and liabilities decreased by substantially the same amount, resulting in little change to net position as a result of the year's activities. There was an overall decrease in resident census for the year causing a decrease in revenue compared to the prior year. The facility decreased its expenditures to offset the loss in revenue.

Condensed Statement of Net Position

| | June 30, | | Increase |
|------------------------------|---------------------|---------------------|-------------------|
| | 2014 | 2013 | (Decrease) |
| Current and other assets | \$ 3,885,097 | \$ 3,892,736 | \$ (7,639) |
| Capital assets | 1,369,320 | 1,398,153 | (28,833) |
| Total assets | <u>5,254,417</u> | <u>5,290,889</u> | <u>(36,472)</u> |
| Current liabilities | 311,555 | 338,111 | (26,556) |
| Other liabilities | 22,494 | 29,352 | (6,858) |
| Total liabilities | <u>334,049</u> | <u>367,463</u> | <u>(33,414)</u> |
| Net position: | | | |
| Investment in capital assets | 1,369,320 | 1,398,153 | (28,833) |
| Unrestricted | <u>3,551,048</u> | <u>3,525,273</u> | <u>25,775</u> |
| Total net position | <u>\$ 4,920,368</u> | <u>\$ 4,923,426</u> | <u>\$ (3,058)</u> |

Statement of Revenues, Expenses, and Changes in Net Position

Expenditures exceeded revenues by \$3,058 for the current fiscal year. This is a decrease of \$211,097 from last year. Revenues decreased by \$909 thousand over last year, and expenses decreased by \$701 thousand.

Operating revenues decreased by \$909 thousand due to a decline in Skilled or Medicare census. The large decrease in employee benefits is due in part to the use of a new computer system and the allocation of payroll taxes to different departments. Group health insurance also decreased by more than \$150 thousand, due to a decrease in the amount that the facility paid on dependent coverage.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Statement of Revenues, Expenses and Changes in Net Position

| | June 30, | | Increase |
|-------------------------------------|--------------|--------------|--------------|
| | 2014 | 2013 | (Decrease) |
| Revenues: | | | |
| Medicaid I | \$ 3,888,230 | \$ 4,177,324 | \$ (289,094) |
| Private pay | 654,950 | 755,283 | (100,333) |
| Medicare A | 1,654,672 | 2,349,690 | (695,018) |
| Medicare B | 212,590 | 175,578 | 37,012 |
| Medicaid II | 271,592 | 289,259 | (17,667) |
| Other | 404,825 | 248,843 | 155,982 |
| Operating revenues | 7,086,859 | 7,995,977 | (909,118) |
| Operating expenses | | | |
| General and administrative | 1,043,868 | 972,688 | 71,180 |
| Employee benefits | 873,784 | 1,282,661 | (408,877) |
| Dietary | 755,553 | 782,297 | (26,744) |
| Housekeeping | 203,830 | 209,838 | (6,008) |
| Laundry and linen | 197,270 | 200,025 | (2,755) |
| Plant operation and maintenance | 416,733 | 429,235 | (12,502) |
| Medical and nursing | 2,524,323 | 2,755,128 | (230,805) |
| Recreational activities | 58,453 | 57,437 | 1,016 |
| Social services | 90,359 | 87,077 | 3,282 |
| Medicare expenses | 782,794 | 877,811 | (95,017) |
| Depreciation | 163,674 | 157,286 | 6,388 |
| Total expenses | 7,110,641 | 7,811,483 | (700,842) |
| Operating income | (23,782) | 184,494 | (208,276) |
| Non-operating revenues | | | |
| Interest | 20,724 | 23,545 | (2,821) |
| Increase (decrease) in net position | (3,058) | 208,039 | (211,097) |
| Net position - beginning | 4,923,426 | 5,662,199 | (738,773) |
| Prior period adjustment | - | (946,812) | 946,812 |
| Net position - restated | 4,923,426 | 4,715,387 | 208,039 |
| Net position - ending | \$ 4,920,368 | \$ 4,923,426 | \$ (3,058) |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - At the end of Fiscal Year 2014, the Nursing Home had invested \$1,369,320, net of accumulated depreciation, in a variety of capital assets. Capital asset additions for the year were \$134,841 and depreciation on capital assets was \$163,674, for a net increase of \$28,833. Additional information on the Nursing Home's capital assets can be found in Notes 1 and 2 beginning on page 12 of this report.

The Nursing Home had no debt as of June 30, 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Medicaid/Choices is slow to approve residents for nursing home care and in reimbursing. The facility is seeing a decrease in its overall census due to many factors. A few are: changes in admission requirements are much more stringent; Medicaid approvals now are open ended, meaning residents are approved for a specific period of time and must be e-evaluated periodically to show nursing home necessity; residents are admitted much sicker and critical, which means shorter stays; facility is seeing more hospice patients/short-term stays; Skilled residents are rehabbed and sent back home; and there is a push from the State for residents to stay home or to return home with some Home and Community based services.

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 POSITION
June 30, 2014

ASSETS

Current assets

| | |
|--------------------------|--------------|
| Cash on hand and in bank | \$ 2,691,974 |
| Certificates of deposit | 629,629 |
| Accounts receivable | 456,347 |
| Inventory - supplies | 74,787 |
| Prepaid insurance | <u>9,866</u> |
| Total current assets | 3,862,603 |

Capital assets

| | |
|--------------------------------|--------------------|
| Land | 2,371 |
| Land improvements | 64,212 |
| Buildings and improvements | 2,995,282 |
| Equipment | 1,539,370 |
| Vehicles | 31,818 |
| Other capital assets | <u>40,815</u> |
| Total capital assets | 4,673,868 |
| Less: accumulated depreciation | <u>(3,304,548)</u> |
| Net capital assets | 1,369,320 |

Restricted assets

| | |
|---|---------------|
| Cash on hand and in bank - patient trust fund | <u>22,494</u> |
|---|---------------|

Total assets **5,254,417**

LIABILITIES

Current liabilities

| | |
|---|---------------|
| Accounts payable | 131,688 |
| Nursing home tax payable | 25,217 |
| Accrued salaries and wages | 73,677 |
| Employee retirement and insurance payable | 24,727 |
| Accrued vacation | <u>56,246</u> |
| Total current liabilities | 311,555 |

Other liabilities

| | |
|--------------------|---------------|
| Patient trust fund | <u>22,494</u> |
|--------------------|---------------|

Total liabilities **334,049**

NET POSITION

| | |
|------------------------------|------------------|
| Investment in capital assets | 1,369,320 |
| Unrestricted | <u>3,551,048</u> |

Total net position **\$ 4,920,368**

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

WEAKLEY COUNTY NURSING HOME
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2014

| | | |
|--|----------------|---------------------------|
| Operating income | | |
| Medicaid I, net of contractual | | \$3,888,230 |
| Private pay | | 654,950 |
| Hospice, net of contractual | | 387,958 |
| Medicare A, net of contractual and bad debts | | 1,654,672 |
| Medicare B, net of contractual | | 212,590 |
| Medicaid II, net of contractual | | 271,592 |
| Meals on Wheels, net of contractual | | 6,146 |
| Respite Medicaid | | 931 |
| Miscellaneous | | <u>9,790</u> |
| Total operating income | | 7,086,859 |
| Operating expenses | | |
| General and administrative | 1,043,868 | |
| Employee benefits | 873,784 | |
| Dietary | 755,553 | |
| Housekeeping | 203,830 | |
| Laundry and linen | 197,270 | |
| Plant operation and maintenance | 416,733 | |
| Medical and nursing | 2,524,323 | |
| Recreational activities | 58,453 | |
| Social services | 90,359 | |
| Medicare expenses | 782,794 | |
| Depreciation | <u>163,674</u> | |
| Total operating expenses | | <u>7,110,641</u> |
| Income (loss) from operations | | (23,782) |
| Nonoperating income | | |
| Interest income | | <u>20,724</u> |
| Change in net position | | (3,058) |
| Net position - beginning of year | | <u>4,923,426</u> |
| Net position - end of year | | <u><u>\$4,920,368</u></u> |

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, 2014

| | |
|---|---------------------------------|
| Cash flows from operating activities: | |
| Receipts from patient charges | \$ 7,333,231 |
| Payments to vendors | (2,425,073) |
| Payments to employees and for employee benefits | <u>(4,548,084)</u> |
| Net cash provided by operating activities | 360,074 |
| Cash flows from capital and related financing activities: | |
| Purchases of equipment | (134,841) |
| Cash flows from investing activities: | |
| Interest added to certificate of deposit | (2,199) |
| Interest received | <u>20,724</u> |
| Net cash provided by investing activities | <u>18,525</u> |
| Net increase in cash and cash equivalents | 243,758 |
| Cash and cash equivalents - beginning of year | <u>2,448,216</u> |
| Cash and cash equivalents - end of year | <u>\$ 2,691,974</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Income (loss) from operations | \$ (23,782) |
| Adjustments to reconcile income from operations to net cash provided by operating activities: | |
| Depreciation | 163,674 |
| Bad debts written off | 146,618 |
| Changes in operating assets and liabilities: | |
| Accounts receivable, net | 99,754 |
| Uniform cost due from employees | 366 |
| Accounts payable | (21,023) |
| Accrued salaries and wages | 2,874 |
| Employee retirement and insurance payable | (4,919) |
| Accrued vacation pay | <u>(3,488)</u> |
| Total adjustments | <u>383,856</u> |
| Net cash provided by operating activities | <u><u>\$ 360,074</u></u> |

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

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

June 30, 2014

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. Measurement Focus and 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. Enterprise funds are a type of proprietary fund, and, as such, are reported in accordance with generally accepted accounting principles for proprietary funds as defined by GASB. Proprietary fund types are reported using the *economic resources* measurement focus and the accrual basis of accounting. The aim of this measurement focus is to report all inflows, outflows, and balances affecting or reflecting the entity's net position. The accrual basis of accounting recognizes income as it is earned and expenses as they are incurred, whether or not cash is received or paid out at that time.

Operating revenues in proprietary funds are those revenues generated from the primary operations of the fund. Operating expenses are those expenses that are essential to the primary operations of the fund. All other revenues and expenses are reported as nonoperating.

C. Assets, Liabilities and Net Position

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.

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.

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, \$146,618 in bad debts were written off and recoveries of \$182,851 were collected.

Depreciation

Capital 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:

| | | | |
|----------------------------|--------------|----------------------|--------------|
| Buildings and improvements | 5 – 40 years | Vehicles | 5 years |
| Equipment | 5 – 15 years | Other capital assets | 7 – 10 years |

WEAKLEY COUNTY NURSING HOME NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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.

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.

Impact of recently issued accounting pronouncements

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. In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement is effective for periods beginning after December 15, 2012. As of June 30, 2014, the Nursing Home had no deferred outflows or deferred inflows of resources.

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement 25*, and Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Statement 67, effective for fiscal years beginning after June 15, 2013, revises existing standards of financial reporting by state and local government pension plans and will be adopted by the pension plan itself. Statement 68 will affect the governments that participate as employers in these plans and is effective for fiscal years beginning after June 15, 2014. For governments to adopt Statement 68, the underlying pension plans must first adopt Statement 67. These statements establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. These pension standards include significant changes to how governmental employers will report liabilities related to pension obligations. Management is currently evaluating the impact that the adoption of Statement 68 will have on the Nursing Home's financial statements.

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

WEAKLEY COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 ACCOUNTS

A. Deposits and Investments

The Nursing Home's policies limit deposits and investments to those instruments allowed by applicable state laws. State statute 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 obligations of the United States or its agencies as the underlying securities, and the state pooled investment fund.

Custodial credit risk of deposits is the risk that in the event of a bank failure the government's deposits may not be returned to it. 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. As of June 30, 2014, all bank deposits were fully collateralized or insured.

B. Changes in Capital Assets

Capital assets activity for the year ended June 30, 2014, was as follows:

| Description | Balance 7/01/13 | Additions | Disposals | Balance 6/30/14 |
|--|---------------------|--------------------|-------------|---------------------|
| Capital assets, not being depreciated | | | | |
| Land | \$ 2,371 | \$ - | \$ - | \$ 2,371 |
| Capital assets, being depreciated | | | | |
| Land improvements | 64,212 | - | - | 64,212 |
| Building | 2,917,234 | 78,048 | - | 2,995,282 |
| Equipment | 1,482,577 | 56,793 | - | 1,539,370 |
| Vehicles | 31,818 | - | - | 31,818 |
| Other | 40,815 | - | - | 40,815 |
| Total capital assets being depreciated | <u>4,536,656</u> | <u>134,841</u> | <u>-</u> | <u>4,671,497</u> |
| Less accumulated depreciation | | | | |
| Land improvements | 41,780 | 1,828 | - | 43,608 |
| Building | 1,855,302 | 73,907 | - | 1,929,209 |
| Equipment | 1,174,026 | 85,072 | - | 1,259,098 |
| Vehicles | 28,951 | 2,867 | - | 31,818 |
| Other | 40,815 | - | - | 40,815 |
| Total accumulated depreciation | <u>3,140,874</u> | <u>163,674</u> | <u>-</u> | <u>3,304,548</u> |
| Net capital assets being depreciated | <u>1,395,782</u> | <u>(28,833)</u> | <u>-</u> | <u>1,366,949</u> |
| Total capital assets, net | <u>\$ 1,398,153</u> | <u>\$ (28,833)</u> | <u>\$ -</u> | <u>\$ 1,369,320</u> |

WEAKLEY COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 – OTHER INFORMATION

A. 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.

B. 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 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.

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

June 30, 2014

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, 2014, was 11.20% 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, 2014, the Weakley County Nursing Home made contributions to the TCRS in the amount of \$301,178. Weakley County Nursing Home's payroll for employees covered by the TCRS for the year ended June 30, 2014, was \$2,645,429. The total payroll for the year was \$3,253,970. 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
SCHEDULE OF OPERATING EXPENSES**

For the Year Ended June 30, 2014

| | |
|--|---------------------|
| General and administrative | |
| Administrator's salary | \$ 87,455 |
| Assistant administrator's salary | 44,243 |
| Office salaries | 172,234 |
| Other compensation/longevity | 33,210 |
| Payroll taxes | 22,628 |
| Insurance | 162,592 |
| Professional temporary services - office | 17,846 |
| Legal fees | 238 |
| Accounting fees | 27,846 |
| Audit fees | 18,470 |
| Office supplies | 15,612 |
| Equipment rental | 2,428 |
| Postage | 3,802 |
| Employee benefit expense | 16,822 |
| Resident benefit expense | 1,181 |
| Employee physicals | 3,835 |
| Outside contractors | 10,958 |
| Board member expense | 4,713 |
| Telephone | 20,384 |
| Training/seminars/conferences | 3,237 |
| Employees expense | 1,754 |
| Dues/memberships/subscriptions | 11,039 |
| Flowers and gifts | 1,786 |
| Advertising | 36,890 |
| Taxes and licenses | 304,500 |
| Professional training and education | 18,412 |
| Miscellaneous | (247) |
| Total general and administrative | <u>\$ 1,043,868</u> |
| Employee benefits | |
| Unemployment taxes | \$ 18,954 |
| Group health insurance | 553,353 |
| Life insurance | 299 |
| Retirement | 301,178 |
| Total employee benefits | <u>\$ 873,784</u> |
| Dietary | |
| Salaries | \$ 353,408 |
| Payroll taxes | 26,847 |
| Food | 297,848 |
| Supplies | 25,908 |
| Purchased services | 10,635 |
| Dietary supplements | 39,570 |
| Utensils, pitchers, plates | 1,337 |
| Total dietary | <u>\$ 755,553</u> |

See independent auditor's report

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

For the Year Ended June 30, 2014

| | |
|--|---------------------|
| Housekeeping | |
| Salaries | \$ 162,929 |
| Payroll taxes | 12,081 |
| Supplies | 28,690 |
| Minor equipment | 130 |
| Total housekeeping | <u>\$ 203,830</u> |
| | |
| Laundry and linen | |
| Salaries | \$ 153,381 |
| Payroll taxes | 11,823 |
| Supplies | 21,031 |
| Linen | 11,035 |
| Total laundry and linen | <u>\$ 197,270</u> |
| | |
| Plant operation and maintenance | |
| Salaries | \$ 63,386 |
| Payroll taxes | 4,163 |
| Minor equipment | 492 |
| Supplies | 6,074 |
| Purchased services | 38,512 |
| Maintenance and repairs | 14,201 |
| TV cable/satellite | 8,944 |
| Pest control | 3,681 |
| Electricity | 88,813 |
| Gas | 58,111 |
| Water and sewage | 65,350 |
| Waste disposal | 59,152 |
| Miscellaneous | 2,924 |
| Facility improvements | 545 |
| Vehicle maintenance | 2,385 |
| Total plant operation and maintenance | <u>\$ 416,733</u> |
| | |
| Medical and nursing | |
| Salaries - RN | \$ 87,958 |
| Salaries - LPN | 725,119 |
| Salaries - aides, orderlies | 1,071,118 |
| Salaries - dining assistants | 5,633 |
| Vacation/holiday/sick - nursing | 123,983 |
| Payroll taxes - nursing | 148,100 |
| Supplies | 129,949 |
| Nurses notes and forms | 138 |
| Administrative salaries | 186,828 |
| Payroll taxes - administrative | 13,902 |
| Contract services - nursing administration | 12,675 |
| Training/seminars/conferences | 3,920 |
| Medical director fees | 15,000 |
| Total medical and nursing | <u>\$ 2,524,323</u> |

See independent auditor's report

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

For the Year Ended June 30, 2014

| | |
|---------------------------------------|-------------------|
| Recreational activities | |
| Salaries | \$ 47,809 |
| Payroll taxes | 3,561 |
| Supplies | 1,314 |
| Special events | 5,744 |
| Dues/memberships/subscriptions | 25 |
| Total recreational activities | <u>\$ 58,453</u> |
| | |
| Social services | |
| Salaries | \$ 83,754 |
| Payroll taxes | 6,392 |
| Supplies | 213 |
| Total social services | <u>\$ 90,359</u> |
| | |
| Medicare/Medicaid II expenses | |
| Contract - physical therapy | \$ 60,061 |
| Contract - speech therapy | 94,689 |
| Contract - occupational therapy | 32,997 |
| Billable medical supplies | 7,748 |
| Pharmacy | 195,654 |
| Floor stock drugs and supplies | 38,440 |
| Lab - Medicare | 9,523 |
| Oxygen | 30,753 |
| X-Ray - Medicare | 9,000 |
| Contract other - physical therapy | 1,648 |
| Contract other - speech therapy | 370 |
| Contract other - occupational therapy | 1,280 |
| MCA - contract - physical therapy | 129,428 |
| MCA - contract - speech therapy | 59,257 |
| MCA - contract - occupational therapy | 111,946 |
| Total Medicare/Medicaid II expenses | <u>\$ 782,794</u> |

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants



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Offices in Tennessee & Kentucky

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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 Commissioners
Weakley County Nursing Home

We have audited, in accordance with the 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 the Weakley County Nursing Home, a component unit of Weakley County, Tennessee, as of and for the year ended June 30, 2014, 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 September 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Weakley 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 Weakley 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. 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.

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 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*.

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 engagement to perform an audit 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

McKenzie, Tennessee
September 16, 2014

WEAKLEY COUNTY NURSING HOME
SCHEDULE OF PRIOR YEAR FINDINGS REQUIRED BY STATE OF TENNESSEE
For the Year Ended June 30, 2014

Financial Statement Findings

There were no prior findings reported.

Federal Award Findings and Questioned Costs

The Nursing Home was not subject to a single audit in the prior year.