

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

**Financial Statements and Supplemental Schedules**

**June 30, 2015 and 2014**

**(With Independent Auditors' Report Thereon)**

**LBMC**

MAKE A GOOD  
BUSINESS **BETTER**

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

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Jefferson County Nursing Home  
Dandridge, Tennessee

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Jefferson County Nursing Home (the "Nursing Home"), a component unit of Jefferson County, Tennessee, which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### *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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 net position of Jefferson County Nursing Home as of June 30, 2015 and 2014 and the changes in its net position and its cash flows for the years 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 4-12, the Schedule of the Nursing Home's Proportionate Share of the Net Pension Asset Based on Participation in the Public Employee Pension Plan of Tennessee Consolidated Retirement System ("TCRS"), the Schedules of the Nursing Home's Contributions Based on Participation in the Public Employee Pension Plan of TCRS and notes to schedules of required supplementary information on pages 38-40 be presented to supplement the basic financial statements. Such information, although not 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.

#### *Supplemental Schedules*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Adoption of New Accounting Pronouncements***

As discussed in Note 2(q) of the financial statements, the Nursing Home adopted Governmental Accounting Standards Board Statements ("GASB") No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB 68* during fiscal year 2015 with retrospective application to fiscal year 2014. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015 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, 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 the Nursing Home's internal control over financial reporting and compliance.

*LBMC, PC*

Knoxville, Tennessee  
November 19, 2015

**JEFFERSON COUNTY NURSING HOME  
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**Management's Discussion and Analysis**

**June 30, 2015, 2014, and 2013**

As management of Jefferson County Nursing Home ("JCNH" or "Nursing Home"), we offer readers of the financial statements this narrative overview and analysis of the financial performance during the years ended June 30, 2015, 2014 and 2013. Please read this analysis in conjunction with JCNH's financial statements.

**FINANCIAL HIGHLIGHTS**

JCNH's net position increased by \$273,249, \$469,501 and \$404,117 for the years ended June 30, 2015, 2014 and 2013, respectively.

JCNH produced income from operations of \$644,393, \$787,353 and \$713,776 for years ended June 30, 2015, 2014 and 2013, respectively.

Operating revenues increased by 2.2% for the year ended June 30, 2015, decreased (0.7)% for the year ended June 30, 2014 and increased 2.7% for the year ended June 30, 2013. Operating expenses increased 3.6% for the year ended June 30, 2015, decreased 1.4% for the year ended June 30, 2014 and decreased 2.7% for the year ended 2013.

**USING THESE ANNUAL FINANCIAL STATEMENTS**

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

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

This annual report of the Jefferson County Nursing Home consists of a series of financial statements. The Statements of Net Position, the Statements of Revenue, Expenses and Changes in Net Position, and the Statements of Cash Flows (which begin on page 13) provide information about the nursing home's operations. These statements include all assets and liabilities of the Nursing Home using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the Nursing Home's revenues and expenses for the years ended June 30, 2015 and 2014 are taken into account regardless of when cash is received or paid.

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**Management's Discussion and Analysis**

**June 30, 2015, 2014, and 2013**

The Statements of Net Position and the Statements of Revenue, Expenses and Changes in Net Position report the Nursing Home's net position and changes in them. The term "net position" is the difference between assets and liabilities as of a certain point in time. The financial health, or financial position, of the Nursing Home can be measured in part by the amount of its net position. Over time, increases or decreases in the Nursing Home's net position are one indicator of whether its financial health is improving or deteriorating. Of course, there are other non-financial factors in assessing the overall health of the Nursing Home, such as quality of patient care and the base of potential Nursing Home residents in the area.

**NURSING HOME DETAILS**

The Nursing Home's operations produced operating income of \$644,393 and \$787,353 for years ended June 30, 2015 and 2014, respectively. After adding nonoperating revenues and expenses, the total increase in the Nursing Home's net position for the years ended June 30, 2015 and 2014 was \$273,249 and \$469,501, respectively. The unrestricted net position - the part of the net position that can be used to finance day-to-day operations without constraints established by legal requirements or board designations - increased from \$1,362,438 at June 30, 2014 to \$1,439,247 at June 30, 2015, an increase of \$76,809. The unrestricted net position increased from \$1,203,459 at June 30, 2013 to \$1,362,438 at June 30, 2014, an increase of \$158,979.

Total revenue of the Nursing Home increased \$256,030 or 2.2% during 2015 compared to 2014. Medicare days increased 10.0% (821 days) in 2015. Medicaid reimbursement rates for non-skilled services increased in 2015 1.6% but were offset by a reduction in Medicaid non-skilled bed days of 9.1% (2,987 days). The nursing home received an additional \$386,171 of reimbursement for acuity level and quality payments in 2015 under a revision to the Medicaid reimbursement methodology which began in 2015. Total revenue of the Nursing Home decreased \$81,633 or .7% during 2014 compared to 2013. The 2014 decrease was primarily comprised of an increase of 281 Medicare days offset by a decrease of 390 commercial insurance skilled days. Also, the Nursing Home did not receive any additional payments for acuity level of non-skilled Medicaid patients in 2014 compared to \$119,408 in 2013. The Medicaid portion of chargeable days was 29,901 out of a total of 53,542, or 55.8% for 2015, and was 32,880 out of a total of 56,196, or 59.1%, for 2014. Medicaid revenue was 46.7% and 47.8% of total revenue for 2015 and 2014, respectively, and continues to constitute a significant portion of the Nursing Home's revenue. The Medicare portion of chargeable days was 9,071 out of a total of 53,542, or 16.9%, for 2015, and was 8,250 out of a total of 56,196, or 14.7%, for 2014. Medicare Parts A & B revenue was 29.9% and 28.5% of 2015 and 2014 total revenue, respectively.

In order to compete with other nursing homes and assisted living facilities, the Nursing Home is continually evaluating its services and making changes in order to give the very best care to residents. Historically, Jefferson County Nursing Home has had a waiting list of persons awaiting admission to the home. With that in mind, a construction project began a few years ago which added 25 beds to the facility effective May 24, 2010. The vision for this addition was unique and forward thinking, in that the new space was to be a home where the residents enjoy an excellent quality of care and life. One of the newest concepts in the nursing home industry is that of Green House homes, which fit the vision

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for the bed addition. According to The Greenhouse Project's web-site, the Green House model is a de-institutionalization effort designed to restore individuals to a home in the community by combining small homes with the full range of personal care and clinical services expected in high-quality nursing homes. Apart from the construction costs, the Nursing Home incurred significant expenses in developing this project and implementing the conceptual framework.

Jefferson County Nursing Home continued with Phase II of construction, which consisted of renovations to the Legacy Building. Construction began during the fiscal year ended June 30, 2011 and was completed in October, 2012. The Nursing Home management believes the addition was necessary to serve the residents of Jefferson County now and into the future, demonstrated by the fact that the Nursing Home consistently has prospective residents on their waiting list.

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

The costs associated with maintaining staffing and providing benefits has continued to rise. Over the long run, adequate staffing can actually prevent additional costs; there is a correlation between low staffing levels and the likelihood of quality problems, including avoidable hospitalizations, deteriorating activities of daily living and increased incidence of pressure sores, weight loss and poor resident hygiene. There is also some cost savings to be realized through adequate staffing by reducing expenses related to staff injuries, and frequent recruiting and training. The Nursing Home's overall staffing levels increased on average 2% during 2015 compared to 2014 and 2013; however, salaries, wages and benefits only increased approximately \$60,000 in 2015 compared to 2014.

Jefferson County Nursing Home's percentage of occupancy was 91.68% for the year ended June 30, 2015, which was a decrease from the 96.23% percentage of occupancy for the year ended June 30, 2014, which had decreased from the 96.91% occupancy percentage for the year ended June 30, 2013. As stated earlier, due to the increased frailty for many of the Nursing Home residents, the residents' life spans after entering the Nursing Home are not as long as in the past, which can result in an increase in turn-around times on filling available beds, an increase in empty bed days, and a decrease in occupancy rates and revenues.

Participation in the Medicaid and Medicare programs requires the Nursing Home's commitment to

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**Management's Discussion and Analysis**

**June 30, 2015, 2014, and 2013**

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

Jefferson County Nursing Home has a significant number of residents who qualify for Medicaid assistance. The Medicaid program reimburses the Nursing Home based on its operating costs which are reported on its annual cost report and is submitted to the State of Tennessee Comptroller's Office. The Nursing Home is limited as to the amount that it can charge Level 1 Medicaid patients for their rooms on a daily basis (the per-diem amount). The Nursing Home's per-diem rate for Medicaid intermediate care facility ("ICF") patients was \$170.57 and \$173.38 for the years ended June 30, 2014 and 2015, respectively. For Medicaid skilled nursing facility ("SNF") patients, the per-diem rate was \$183.31 and \$176.66 for the years ended June 30, 2014 and 2015, respectively. The per-diem rate for private pay residents in private rooms was \$173.00 for the period February 1, 2012 through November 30, 2012; \$178.00 for the period December 1, 2012 through December 31, 2013; \$181.00 for the period January 1, 2014 through January 14, 2015, and \$185.00 for the period January 15, 2015 through June 30, 2015. The per-diem rate for private pay residents in semi-private rooms was \$163.00 for the period July 1, 2011 through November 30, 2012; \$168.00 for the period December 1, 2012 through December 31, 2013; \$171.00 for the period January 1, 2014 through January 14, 2015, and \$175.00 for the period January 15, 2015 through June 30, 2015.

Operating costs increased 3.6% for the year ended June 30, 2015 primarily related to a \$242,085 increase in the Tennessee Nursing Facility Assessment Fee compared to the previous Tennessee Nursing Home Tax, while 2014 operating costs decreased by 1.4% from 2013 primarily related to a decrease in pension costs net of an increase in salaries, wages and benefits. The Nursing Home administration feels that maintaining a quality level of personnel at competitive wage rates and rewarding job performance is a key factor to the Nursing Home's success in providing the best quality of life that it can for its residents (see discussion above).

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**June 30, 2015, 2014, and 2013**

The following tables summarize the nursing home's Net Position (Table 1), and Changes in Net Position (Table 2) for years ended June 30, 2015, 2014 and 2013:

**Table 1**  
**Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 2,823,873	\$ 2,428,351	\$ 2,039,018
Capital assets	<u>7,757,702</u>	<u>8,132,049</u>	<u>8,512,318</u>
Total assets	<u>10,581,575</u>	<u>10,560,400</u>	<u>10,551,336</u>
Deferred outflows of resources - employee pension contributions	<u>630,751</u>	<u>515,780</u>	<u>-</u>
Due to primary government outstanding	(7,075,000)	(7,285,000)	(7,240,000)
Other liabilities	<u>(980,583)</u>	<u>(1,585,465)</u>	<u>(820,801)</u>
Total liabilities	<u>(8,055,583)</u>	<u>(8,870,465)</u>	<u>(8,060,801)</u>
Deferred inflows of resources - pension	<u>677,779</u>	<u>-</u>	<u>-</u>
Net position:			
Net investment in capital assets	788,402	1,067,049	1,272,318
Restricted component of net position - expendable:			
Pension benefits	236,544	(238,541)	-
Scholarships	14,771	14,769	14,758
Unrestricted	<u>1,439,247</u>	<u>1,362,438</u>	<u>1,203,459</u>
Total net position	<u>\$ 2,478,964</u>	<u>\$ 2,205,715</u>	<u>\$ 2,490,535</u>

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**Management's Discussion and Analysis**

**June 30, 2015, 2014, and 2013**

**Table 2**  
**Changes in Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Revenue:</b>			
Routine services	\$ 8,104,598	\$ 8,433,157	\$ 8,520,646
Medicare - Part A revenue	3,422,932	3,036,466	2,934,624
Medicare - Part B ancillaries	159,148	303,879	338,500
Medicaid - acuity and quality payments	386,171	-	-
Other	28,804	15,837	17,165
Less: (bad debts) recoveries	<u>(112,285)</u>	<u>(57,278)</u>	<u>2,078</u>
Total revenue	<u>11,989,368</u>	<u>11,732,061</u>	<u>11,813,013</u>
<b>Expenses:</b>			
General and administrative	2,075,322	2,034,456	2,493,206
TN nursing home tax	-	356,000	356,000
TN nursing facility assessment fee	598,085	-	-
Nursing	4,307,613	4,260,167	4,152,067
Activities and social services	270,791	258,825	209,050
Dietary	1,008,948	999,192	978,724
Housekeeping	301,365	275,030	252,751
Laundry & linen	173,882	177,051	171,976
Plant operation and maintenance	590,793	613,050	520,106
Ancillary services expense	1,212,765	1,250,776	1,183,440
Drugs	419,967	323,698	403,956
Depreciation	384,410	396,706	380,885
Interest	<u>372,178</u>	<u>317,609</u>	<u>306,735</u>
Total expenses	<u>11,716,119</u>	<u>11,262,560</u>	<u>11,408,896</u>
Increase in net position	<u>\$ 273,249</u>	<u>\$ 469,501</u>	<u>\$ 404,117</u>

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**Management's Discussion and Analysis**

**June 30, 2015, 2014, and 2013**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2015 Jefferson County Nursing Home had \$7,757,702 invested in net capital assets, the majority of which was invested in buildings (\$6,786,153). The remaining capital assets consisted of land, land improvements, vehicles and equipment. Net capital assets decreased by \$374,347, \$380,269 and \$263,320 in 2015, 2014, and 2013, respectively. The decreases were net of current year additions and current year depreciation. A more detailed asset addition listing is included in Table 4 below.

The following tables summarize the nursing home's capital assets for the years ended June 30, 2015, 2014 and 2013 (Table 3) and capital asset additions (Table 4).

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 7,181	\$ 7,181	\$ 7,181
Land improvements	144,325	148,234	161,344
Buildings	6,786,153	7,010,463	7,227,060
Motor vehicles	16,104	31,896	47,782
Equipment	<u>803,939</u>	<u>934,275</u>	<u>1,068,951</u>
Totals	<u>\$ 7,757,702</u>	<u>\$ 8,132,049</u>	<u>\$ 8,512,318</u>

**Table 4  
Current Year Additions - at Cost**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Building	\$ -	\$ 7,729	\$ 69,322
Land improvements	10,305	-	44,138
Movable equipment	<u>-</u>	<u>9,618</u>	<u>7,703</u>
Total Additions	<u>\$ 10,305</u>	<u>\$ 17,347</u>	<u>\$ 121,163</u>

**JEFFERSON COUNTY NURSING HOME  
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**Management's Discussion and Analysis**

**June 30, 2015, 2014, and 2013**

**Debt**

At June 30, 2015, the nursing home had \$7,075,000 payable in outstanding debt to Jefferson County relating to bond issuances. \$4,345,000 of the balance relates to bonds that were issued on December 2, 2007 ("Series 2007"). The purpose of the bond issue was to fund the addition to the nursing home. The remaining \$2,730,000 of the balance relates to bonds that were issued on May 15, 2014 ("Series 2014") which were issued to refund \$2,540,000 of the original Series 2007. The bonds are general obligation improvement and refunding bonds of Jefferson County; however, the nursing home will be responsible for paying all principal and interest due on the bonds. More extensive information concerning the bond issue can be found in Note 7 of the financial statements.

The nursing home has other current liabilities due at June 30, 2015, including normal accounts payable, salaries payable and vacation leave payable.

**Medicaid/TennCare Reimbursement Changes**

The State of Tennessee passed House Bill No. 1783 on April 14, 2014 and was signed by the governor on April 30, 2014. The legislation amended TN Code Annotated, Title 68 and Title 71, relative to nursing homes. The amendment replaces the TN nursing home tax with a Nursing Facility Assessment Fee ("NFAF") effective July 1, 2014. The NFAF totaled \$598,085 for the year ended June 30, 2015 compared to the Tennessee Nursing Home Tax of \$356,000 for the year ended June 30, 2014. The Nursing Home received additional payments from the State related to the acuity (average facility case mix index scores) and quality scores during fiscal year ended June 30, 2015, which totaled \$386,171. The State intends to transition to a new acuity based Medicaid system on July 1, 2016. The management of the Nursing Home is monitoring the potential financial impacts of the changes.

**Nursing Home Officials - June 30, 2015**

**Board of Directors:**

**Alan Palmieri, Chairman  
Todd Kesterson  
Linda Franklin, Treasurer  
E. M. Rogers, Secretary  
Murrel Jarnigan**

**Administration:**

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

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**Management's Discussion and Analysis**

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**CONTACTING THE NURSING HOME'S FINANCIAL MANAGEMENT**

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

**JEFFERSON COUNTY NURSING HOME**  
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**Statements of Net Position**

**June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Assets:</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,286,643	\$ 1,310,002
Restricted cash held by Jefferson County for interest payments (Note 7)	105,700	114,300
Patient accounts receivable, less allowance for uncollected accounts of \$2,647 and \$13,800 in 2015 and 2014, respectively	1,084,156	790,745
Inventories	24,944	27,200
Prepaid expenses	19,387	23,276
Estimated third-party payor settlements	<u>-</u>	<u>37,659</u>
<b>Total current assets</b>	<b><u>2,520,830</u></b>	<b><u>2,303,182</u></b>
<b>Restricted assets:</b>		
Cash - scholarships for employees	14,771	14,769
Cash held by Jefferson County for interest payments (Note 7)	<u>-</u>	<u>105,700</u>
<b>Total restricted assets</b>	<b><u>14,771</u></b>	<b><u>120,469</u></b>
Property and equipment, net	7,757,702	8,132,049
Land held for investment	4,700	4,700
Net pension asset	<u>283,572</u>	<u>-</u>
<b>Total assets</b>	<b><u>10,581,575</u></b>	<b><u>10,560,400</u></b>
<b>Deferred outflows of resources:</b>		
Employer pension contributions	<u>630,751</u>	<u>515,780</u>
<b>Total deferred outflows of resources</b>	<b>\$ <u>630,751</u></b>	<b>\$ <u>515,780</u></b>

See accompanying notes to the financial statements.

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**Statements of Net Position**

**June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Liabilities:</b>		
<b>Current liabilities:</b>		
Current portion due to primary government	\$ 225,000	\$ 210,000
Accounts payable	305,644	307,855
<b>Accrued expenses:</b>		
Salaries and wages	221,910	194,607
Vacation/holiday pay	258,085	228,942
Payroll taxes	35,966	36,186
Employee retirement	74,767	21,800
Interest	20,665	25,507
Other	19,435	16,247
Estimated third-party payor settlements	<u>44,111</u>	<u>-</u>
<b>Total current liabilities</b>	<b>1,205,583</b>	<b>1,041,144</b>
Due to primary government, excluding current portion	6,850,000	7,075,000
Net pension liability	<u>-</u>	<u>754,321</u>
<b>Total liabilities</b>	<b><u>8,055,583</u></b>	<b><u>8,870,465</u></b>
Deferred inflows of resources - pension	<u>677,779</u>	<u>-</u>
<b>Net position:</b>		
Net investment in capital assets	788,402	1,067,049
Unrestricted	1,439,247	1,362,438
<b>Restricted component of net position - expendable:</b>		
Pension benefits	236,544	(238,541)
Scholarships	<u>14,771</u>	<u>14,769</u>
<b>Total net position</b>	<b>\$ <u>2,478,964</u></b>	<b>\$ <u>2,205,715</u></b>

See accompanying notes to the financial statements.

**JEFFERSON COUNTY NURSING HOME**  
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**Statements of Revenue, Expenses and Changes in Net Position**

**Years ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Operating revenue:</b>		
Patient service revenue, net of provisions for bad debts of \$112,285 and \$57,278 in 2015 and 2014, respectively	\$ 11,960,564	\$ 11,716,224
Other income	<u>27,770</u>	<u>16,080</u>
<b>Total operating revenue</b>	<b><u>11,988,334</u></b>	<b><u>11,732,304</u></b>
<b>Operating expenses:</b>		
General and administrative	2,075,322	2,034,456
Tennessee nursing home tax	-	356,000
Tennessee nursing facility assessment fee	598,085	-
Nursing	4,307,613	4,260,167
Activities	91,162	85,578
Social services	179,629	173,247
Dietary	1,008,948	999,192
Housekeeping	301,365	275,030
Laundry and linen	173,882	177,051
Plant operation and maintenance	590,793	613,050
Ancillary services expenses	1,212,765	1,250,776
Drugs	419,967	323,698
Depreciation	<u>384,410</u>	<u>396,706</u>
<b>Total operating expenses</b>	<b><u>11,343,941</u></b>	<b><u>10,944,951</u></b>
<b>Operating income</b>	<b><u>644,393</u></b>	<b><u>787,353</u></b>
<b>Nonoperating revenues (expenses):</b>		
Interest income - investments and interest bearing accounts	1,274	656
Loss on disposal of capital assets	(242)	(910)
Interest expense	<u>(372,178)</u>	<u>(317,609)</u>
<b>Total nonoperating income (expenses)</b>	<b><u>(371,146)</u></b>	<b><u>(317,863)</u></b>
<b>Excess of revenue over expenses</b>	<b>273,247</b>	<b>469,490</b>
<b>Restricted component of net position - expendable - interest income</b>	<u>2</u>	<u>11</u>
<b>Increase in net position</b>	<b><u>273,249</u></b>	<b><u>469,501</u></b>
<b>Net position at beginning of year, as previously reported</b>		2,490,535
Cumulative adjustment for adoption of GASB 68 and 71 (see Note 2(m))		<u>(754,321)</u>
<b>Net position at beginning of year, as restated</b>		<u>1,736,214</u>
<b>Net position at end of year, as restated</b>		\$ <u>2,205,715</u>
<b>Net position at beginning of year, as restated</b>	<u>2,205,715</u>	
<b>Net position at end of year</b>	\$ <u>2,478,964</u>	

See accompanying notes to the financial statements.

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

**Statements of Cash Flows**

**Years ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Receipts from and on behalf of patients	\$ 11,748,923	\$ 11,747,732
Payments to suppliers for goods or services	(6,080,675)	(5,838,148)
Payments to employees for services	(5,237,626)	(5,159,148)
Other receipts and payments, net	<u>27,770</u>	<u>16,080</u>
Net cash provided by operating activities	<u>458,392</u>	<u>766,516</u>
<b>Cash flows from capital and related financing activities:</b>		
Proceeds from long-term debt	-	(175,000)
Principal paid on long-term debt	(210,000)	-
Interest paid on long-term debt	(377,020)	(318,182)
Purchases of property and equipment	(10,305)	(17,347)
Proceeds from long-term debt	-	220,000
Decrease (increase) in cash restricted for financed interest payments	<u>114,300</u>	<u>(220,000)</u>
Net cash used by capital and related financing activities	<u>(483,025)</u>	<u>(510,529)</u>
<b>Cash flows from investing activities:</b>		
Investment income	<u>1,274</u>	<u>656</u>
Net cash provided by investing activities	<u>1,274</u>	<u>656</u>
(Decrease) increase in cash and cash equivalents	(23,359)	256,643
Cash and cash equivalents at beginning of year	<u>1,310,002</u>	<u>1,053,359</u>
Cash and cash equivalents at end of year	<u>\$ 1,286,643</u>	<u>\$ 1,310,002</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 644,393	\$ 787,353
Adjustments to reconcile operating income to cash provided by operating activities:		
Depreciation	384,410	396,706
Provision for bad debts	112,285	57,278
(Increase) decrease in operating assets:		
Patient accounts receivable	(405,696)	63,044
Estimated third-party payor settlements	37,659	(37,659)
Inventories	2,256	7,515
Prepaid expenses	3,889	(2,857)
Net pension asset	(283,572)	-
Deferred outflows - employer pension contributions	(114,971)	(515,780)
Increase (decrease) in operating liabilities:		
Accounts payable	(2,211)	29,095
Accrued expenses	112,381	32,976
Estimated third-party payor settlements	44,111	(51,155)
Deferred inflows - pension	677,779	-
Net pension liability	<u>(754,321)</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 458,392</u>	<u>\$ 766,516</u>

See accompanying notes to the financial statements.

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

**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(1) Nature of operations**

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

**(2) Summary of significant accounting policies**

**(a) Basis of presentation**

The Nursing Home utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis, which is an economic resources measurement focus approach to accounting. In December 2010, the Governmental Accounting Standards Board ("GASB") issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. GASB 62 and 63 were effective for periods beginning after December 15, 2011. GASB 62 makes the GASB *Accounting Standards Codification* the sole source of authoritative accounting technical literature for governmental entities in the United States of America.

**(b) Inventories**

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

**(c) Cash, cash equivalents and investments**

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

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

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(d) Fair value measurements**

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3). The Nursing Home has a net pension asset of \$283,572 as of June 30, 2015 and a net pension liability of \$754,321 as of June 30, 2014 which would be classified as Level 2 under the hierarchy above. The Nursing Home does not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2015 or 2014.

**Financial assets**

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

**Non-financial assets**

The Nursing Home's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Nursing Home is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at fair value. During the years ended June 30, 2015 and 2014, the Nursing Home did not measure any non-financial assets at fair value or recognize any amounts in the statements of revenue, expenses and changes in net position related to changes in fair value for non-financial assets.

**(e) Property and equipment**

Property and equipment acquisitions are recorded at cost. The Nursing Home capitalizes purchases that cost a minimum of \$5,000 and have a useful life greater than two years. Assets are depreciated on a straight-line basis over their estimated useful lives as follows: land improvements 10-12 years; buildings and improvements 10-40 years; equipment 4-20 years, and transportation equipment 5-7 years.

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(f) Patient service revenue**

The Nursing Home has agreements with third-party payors that provide for payments to the Nursing Home at amounts different from its established rates. Payment arrangements include prospectively determined per diem rates per day and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Patient service revenue is net of contractual adjustments of approximately \$82,000 and \$248,000 for the years ended June 30, 2015 and 2014, respectively.

**(g) Operating activities**

The Nursing Home defines operating activities as reported on the Statements of Revenue, Expenses and Changes in Net Position as those that generally result from exchange transactions, such as payments for providing services and payments for goods and services received. Non-exchange transactions, including investment income and interest expense, are considered non-operating revenue and expenses.

**(h) Pension plan**

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employee Retirement Plan in the Tennessee Consolidated Retirement System ("TCRS") and addition to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan. Investments are reported at fair value.

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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(i) Compensated absences**

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

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

**(j) Risk management**

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

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(k) Net position**

All resources that are not restricted by donors are included in unrestricted net position. Resources temporarily restricted by donors for specific purposes are reported as restricted component of net position - expendable. When specific purposes are achieved, either through passage of a stipulated time or the purpose for restriction is accomplished, they are classified to unrestricted net position and reported in the statement of revenue, expenses and changes in net position. Resources temporarily restricted by donors for additions to property and equipment are initially reported as restricted component of net position - expendable and are transferred to unrestricted net position when expended. Donor-imposed restrictions which stipulate that the resources be maintained permanently are reported as restricted component of net position - unexpendable. Investment income for the restricted component of net position - unexpendable is classified as either restricted component of net position - expendable or unrestricted based on the intent of the donor. As of June 30, 2015 and 2014, the Nursing home had restricted component of net position - expendable of \$236,544, and \$(238,541) respectively, relating to the net pension asset (liability), deferred outflows of resources and deferred inflows of resources related to pension benefits as well as restricted component of net position - expendable designated for employee scholarships as discussed in Note 3. As of June 30, 2015 and 2014, there were no restricted component of net position - unexpendable.

The Nursing Home first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**(l) Income taxes**

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

**(m) Cumulative effect adjustment**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27* (GASB 68) and in November 2013, the GASB issued Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB No. 68*. GASB 68 and 71 amend the accounting and financial reporting by state and local governments for pensions. Under these statements, state and local governments will recognize their specific pension amounts which include net pension asset (liability), deferred outflows of resources, deferred inflows of resources, and pension income (expense). The Nursing Home adopted the provisions of these statements as of July 1, 2014 and incorporated the provisions of these statements to its financial statements through retrospective application to all periods presented and a cumulative effect adjustment to net position as of July 1, 2013.

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

The Nursing Home decreased net position by \$754,321 as of July 1, 2013 to reflect the cumulative effect of the adoption of GASB 68 and 71 and to record the initial net pension liability. The Nursing Home's proportionate share of the fiscal year 2014 contributions of \$515,780 were also recorded as a deferred outflow of resources and a reduction of employee benefit expense as of June 30, 2014. The difference between the Nursing Home's actual contributions and its proportionate share of the 2014 contributions of \$57,658 was recognized as pension expense for the year ended June 30, 2014. The cumulative adjustment to net position was \$(238,541). The prior period financial statements have been revised to reflect this change in accounting, the effects of which have been summarized below:

	As of and for the Year Ended June 30, 2014		
	As Previously		
	Reported	Adjustment	As Adjusted
<b>Statement of Net Position</b>			
Initial net pension liability	\$ -	\$ (754,321)	\$ (754,321)
Deferred outflows of resources	-	515,780	515,780
Net position at beginning of year	2,490,535	(754,321)	1,736,214
Net position at end of year	2,444,256	(238,541)	2,205,715
<b>Statement of Revenue, Expenses and Changes in Net Position</b>			
General and administrative	\$ 2,550,236	\$ (515,780)	\$ 2,034,456
Total operating expenses	11,460,731	(515,780)	10,944,951
Operating income	271,573	515,780	787,353
Total nonoperating income (expense)	(317,863)	-	(317,863)
Excess of revenue over expenses	(46,290)	515,780	469,490

**(n) Long-lived assets**

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

**(o) Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(p) Performance indicator**

Excess of revenue over (under) expenses reflected in the accompanying statements of revenue, expenses and changes in net position is a performance indicator.

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(q) Adoption of new accounting pronouncements**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities and is effective for financial statements for fiscal years beginning after December 15, 2012. Therefore the Nursing Home adopted this standard at the beginning of fiscal year 2014.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The statement was effective for financial statements for fiscal years beginning after June 15, 2014. Therefore the Nursing Home adopted this standard at the beginning of fiscal year 2015.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement relates to accounting and financial reporting for government combinations and disposals of government operations and was effective for financial statements for fiscal years beginning after December 15, 2013. Therefore the Nursing Home adopted this standard at the beginning of fiscal year 2015.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. The primary objective of this statement is to address an issue regarding application of the transition provisions of Statement No. 68. This statement requires that at transition, an entity recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning of the net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of Statement No. 68.

The adoption of these accounting standards, with the exception of Statement No. 68, did not have a material impact on the Nursing Home's financial statements. The adoption of Statement No. 68 was incorporated in the Nursing Home's financial statements through retrospective application to all periods presented and a cumulative adjustment to net position as of July 1, 2013. See Notes 2(m) and 8.

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(r) New accounting pronouncements**

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements and provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard is effective for fiscal years beginning after June 15, 2015. Therefore, the Nursing Home expects to adopt this standard at the beginning of fiscal year 2016.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68*. This statement is applicable to the Nursing Home with regard to clarification of certain provisions of Statement No. 68 including information that is required to be presented as notes to the ten-year schedules of required supplementary information. The requirements of this standard that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015. Therefore, the Nursing Home expects to adopt this standard at the beginning of fiscal year 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* which amended Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the hierarchy of generally accepted accounting principles ("GAAP") to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement is effective for fiscal years beginning after June 15, 2015 and should be applied retroactively. Therefore, the Nursing Home expects to adopt this standard at the beginning of fiscal year 2016.

The Nursing Home is currently assessing the impact of adopting these accounting standards.

**(s) Events occurring after reporting date**

The Nursing Home has evaluated events and transactions that occurred between June 30, 2015 and November 19, 2015, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(3) Restricted assets**

Cash in the employee scholarship fund is available to provide scholarships to qualifying employees. Certain donations received are designated to be used for higher education of employees. Deposits to the fund come from private donations and monthly interest earned. The only withdrawals made are to award \$2,000 scholarships to qualifying employees. Scholarships awarded are subject to board approval. No employees received a scholarship during the years ended June 30, 2015 and 2014.

**(4) Third-party reimbursement programs**

The Nursing Home receives revenue under various third-party reimbursement programs which include Medicare, Medicaid, and other third-party payors. Contractual adjustments under third-party reimbursement programs represent the difference between the Nursing Home's billings at its established rates and the amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent tentative or final settlements. There were no adjustments to revenue resulting from tentative or final settlements to estimated reimbursement amounts for the years ended June 30, 2015 and 2014.

**(a) Medicare**

The Nursing Home is paid for substantially all services rendered to Medicare program beneficiaries for skilled nursing care under prospectively determined case-mix rates. Those rates vary according to a classification system that is based on a medical assessment of the rehabilitation needed, extent of services needed, and other factors. The patient is often responsible for a portion of the fee. For the patient portion of fees not collected after normal collection efforts with the filing of an annual cost report, the Nursing Home was reimbursed 88% of such uncollected fees for the period July 1, 2013 through March 31, 2014 and reimbursed 76% of such uncollected fees for the period of April 1, 2014 through March 31, 2015; and expects to be reimbursed 65% through March 31, 2016.

**(b) Medicaid**

The Medicaid program reimburses the Nursing Home for the cost of skilled nursing or routine care services rendered to Medicaid beneficiaries at a prospective rate which is based on the lower of the reimbursable cost of services rendered or a reimbursement cap set by Medicaid for each level of service. The reimbursement cap is expressed as a per diem. Beginning in 2015, the Nursing Home also received additional payments from the state related to acuity (average facility case mix index scores) and quality scores which totaled \$386,171.

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(c) Commercial payors**

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

**(d) Credit concentrations**

The Nursing Home grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies. At June 30, 2015 and 2014, the Nursing Home had net receivables from the Federal Government (Medicare) of approximately \$384,000 and \$515,000 and from Medicaid of approximately \$179,000 and \$184,000, respectively. Medicare comprised 30% and 28% of net patient service revenue for the years ended June 30, 2015 and 2014, respectively. Medicaid comprised 47% and 48% of net patient service revenue for the years ended June 30, 2015 and 2014, respectively.

**(5) Inventories**

A summary of inventories as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Food	\$ 11,118	\$ 12,806
Medical supplies	7,950	7,313
Housekeeping	3,063	2,776
Maintenance supplies	<u>2,813</u>	<u>4,305</u>
	<u>\$ 24,944</u>	<u>\$ 27,200</u>

**(6) Property and equipment**

The net investment in capital assets as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Property and equipment, net	\$ 7,757,702	\$ 8,132,049
Current portion of long-term debt	(225,000)	(210,000)
Long-term debt, excluding current portion	(6,850,000)	(7,075,000)
Restricted cash for payment of financed interest	<u>105,700</u>	<u>220,000</u>
	<u>\$ 788,402</u>	<u>\$ 1,067,049</u>

**JEFFERSON COUNTY NURSING HOME**  
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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

The major classifications and changes in property and equipment as of and for the years ended June 30, 2015 and 2014 are as follows:

	<u>Balance at July 1, 2014</u>	<u>Additions/ Transfers</u>	<u>Placed in Service/ Retirements</u>	<u>Balance at June 30, 2015</u>
Land	\$ 7,181	\$ -	\$ -	\$ 7,181
Land improvements	230,567	10,305	-	240,872
Buildings and improvements	9,843,508	-	-	9,843,508
Machinery and equipment	2,183,507	-	(1,696)	2,181,811
Transportation equipment	<u>100,166</u>	<u>-</u>	<u>-</u>	<u>100,166</u>
	<u>12,364,929</u>	<u>10,305</u>	<u>(1,696)</u>	<u>12,373,538</u>
Less allowance for depreciation and amortization:				
Land improvements	(82,333)	(14,214)	-	(96,547)
Buildings and improvements	(2,833,058)	(224,311)	-	(3,057,369)
Machinery and equipment	(1,249,219)	(130,093)	(1,454)	(1,377,858)
Transportation equipment	<u>(68,270)</u>	<u>(15,792)</u>	<u>-</u>	<u>(84,062)</u>
	<u>(4,232,880)</u>	<u>(384,410)</u>	<u>(1,454)</u>	<u>(4,615,836)</u>
	<u>\$ 8,132,049</u>	<u>\$ (374,105)</u>	<u>\$ (242)</u>	<u>\$ 7,757,702</u>
	<u>Balance at July 1, 2013</u>	<u>Additions/ Transfers</u>	<u>Placed in Service/ Retirements</u>	<u>Balance at June 30, 2014</u>
Land	\$ 7,181	\$ -	\$ -	\$ 7,181
Land improvements	230,567	-	-	230,567
Buildings and improvements	9,835,779	7,729	-	9,843,508
Machinery and equipment	2,208,593	9,618	(34,704)	2,183,507
Transportation equipment	<u>100,166</u>	<u>-</u>	<u>-</u>	<u>100,166</u>
	<u>12,382,286</u>	<u>17,347</u>	<u>(34,704)</u>	<u>12,364,929</u>
Less allowance for depreciation and amortization:				
Land improvements	(69,223)	(13,110)	-	(82,333)
Buildings and improvements	(2,608,719)	(224,339)	-	(2,833,058)
Machinery and equipment	(1,139,642)	(143,371)	(33,794)	(1,249,219)
Transportation equipment	<u>(52,384)</u>	<u>(15,886)</u>	<u>-</u>	<u>(68,270)</u>
	<u>(3,869,968)</u>	<u>(396,706)</u>	<u>(33,794)</u>	<u>(4,232,880)</u>
	<u>\$ 8,512,318</u>	<u>\$ (379,359)</u>	<u>\$ (910)</u>	<u>\$ 8,132,049</u>

**JEFFERSON COUNTY NURSING HOME  
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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(7) Due to primary government**

A schedule of changes in the Nursing Home's long-term debt to the government of Jefferson County, Tennessee related to bond issuances as of and for the years ended June 30, 2015 and 2014 is as follows:

	<u>Balance at July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Pre-funded Debt Retirement</u>	<u>Balance at June 30, 2015</u>	<u>Amounts Due Within One Year</u>
General Obligation Bonds - 2007 (Balance Due to County)	\$ 4,525,000	\$ -	\$ (180,000)	\$ -	\$ 4,345,000	\$ 190,000
General Obligation Refunding Bonds - 2014 (Balance Due to County)	<u>2,760,000</u>	<u>-</u>	<u>(30,000)</u>	<u>-</u>	<u>2,730,000</u>	<u>35,000</u>
	<u>\$ 7,285,000</u>	<u>\$ -</u>	<u>\$ (210,000)</u>	<u>\$ -</u>	<u>\$ 7,075,000</u>	<u>\$ 225,000</u>
	<u>Balance at July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Pre-funded Debt Retirement</u>	<u>Balance at June 30, 2014</u>	<u>Amounts Due Within One Year</u>
General Obligation Bonds - 2007 (Balance Due to County)	\$ 7,240,000	\$ -	\$ (175,000)	\$(2,540,000)	\$ 4,525,000	\$ 180,000
General Obligation Refunding Bonds - 2014 (Balance Due to County)	<u>-</u>	<u>2,760,000</u>	<u>-</u>	<u>-</u>	<u>2,760,000</u>	<u>30,000</u>
	<u>\$ 7,240,000</u>	<u>\$ 2,760,000</u>	<u>\$ (175,000)</u>	<u>\$(2,540,000)</u>	<u>\$ 7,285,000</u>	<u>\$ 210,000</u>

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

The Series 2007 coupon rates range from 4.0% to 4.4% with interest payable in semi-annual payments on June 1 and December 1 and remaining annual principal installments ranging from \$180,000 to \$480,000 each June 1. The final principal installment is due June 1, 2037.

Jefferson County, Tennessee issued \$4,285,000 General Obligation Refunding Bonds, Series 2014 ("Series 2014"), dated May 15, 2014 to be used to call certain bond issuances outstanding by the

**JEFFERSON COUNTY NURSING HOME  
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County. The Series 2014 is also a direct general obligation of the County with a similar pledge as the 2007 Series. \$2,540,000 of the Series 2014 proceeds will be used to call a portion of the Series 2007 obligation on June 1, 2016. The \$2,540,000 is held in the name of the County in an escrow account; therefore, the \$2,540,000 transaction is reflected as a pre-funded debt retirement (non-cash activity) by the Nursing Home to the County towards the Series 2007 obligation and has reduced the remaining obligation to the County for the Series 2007 accordingly. \$220,000 of the Series 2014 proceeds are to be used to finance the payment of interest on the \$2,540,000 portion of the Series 2007 debt through the June 1, 2016 call date. As of June 30, 2015 and 2014, the remaining \$105,700 and \$220,000, respectively, is also held in an escrow account in the name of the County. The \$105,700 and \$220,000 as of June 30, 2015 and 2014, respectively, is reflected as an asset of the Nursing Home and will be expensed as interest when the County uses the funds to pay the bond holders under Series 2007. The County utilized \$114,300 of the funds to pay the bond holders under series 2007 and is expensed as interest by the Nursing Home in 2015. The Nursing Home recorded an initial liability to the County of \$2,760,000 related to the Series 2014 bond issue comprised of the initial \$2,540,000 and \$220,000 amounts discussed above. The balance has reduced to \$2,730,000 as of June 30, 2015 after a \$30,000 payment of principal during the year ended June 30, 2015. The remaining \$1,525,000 of proceeds from Series 2014 relate to County uses other than the Nursing Home.

The Series 2014 coupon rates range from 2.0% to 2.75% with interest payable in semi-annual payments on June 1 and December 1 and annual principal installments ranging from \$30,000 to \$295,000 each June 1. The final principal installment is due June 1, 2027.

A summary of future maturities and interest of long-term debt due to the County related to Series 2007 and Series 2014 bond obligations (excludes the \$2,540,000 pre-funded debt retirement to the County) as of June 30, 2015 is as follows:

<u>Year</u>	<u>Series 2014 Principal</u>	<u>Series 2007 Principal</u>	<u>Estimated Interest</u>	<u>Interest Pre-funded</u>	<u>Payments</u>
2016	\$ 35,000	\$ 190,000	\$ 366,000	\$ (106,000)	\$ 485,000
2017	35,000	200,000	244,000	-	479,000
2018	240,000	-	235,000	-	475,000
2019	245,000	-	230,000	-	475,000
2020	245,000	-	225,000	-	470,000
2021-2025	1,340,000	-	1,045,000	-	2,385,000
2026-2030	590,000	1,005,000	849,000	-	2,444,000
2031-2035	-	2,010,000	480,000	-	2,490,000
2036-2037	-	940,000	62,000	-	1,002,000
	<u>\$ 2,730,000</u>	<u>\$ 4,345,000</u>	<u>\$ 3,736,000</u>	<u>\$ (106,000)</u>	<u>\$ 10,705,000</u>

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**Notes to the Financial Statements**

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**(8) Pension plan**

**(a) General information about the pension plan**

*Plan description*

Employees of the Nursing Home, as a component unit of Jefferson County, are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of the state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

*Benefits provided*

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced ten percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments ("COLAs") after retirement. A COLA is granted each July for annuitants retired prior to the second of July of the previous year. The COLA is based on the change in the consumer price index ("CPI") during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent.

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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

***Contributions***

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees do not make contributions to their account; instead the component units of Jefferson County make employer contributions at the contribution rate set by the Board of Trustees as determined by actuarial valuation. For the year ended June 30, 2015, employer contributions for the Nursing home were \$630,750 based on a rate of 15.63% of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Jefferson County's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution ("ADC") and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

**(b) Net pension asset**

At June 30, 2015 the Nursing Home reported an asset of \$283,572 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date. The Nursing Home's proportion of the net pension asset was based on the Nursing Home's active participants as of June 30, 2014 relative to the active participants of all component units of Jefferson County as of June 30, 2014. At the June 30, 2014 measurement date, the Nursing Home's proportion was 16.97%.

***Actuarial assumptions***

The total pension liability as of June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost of Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2014 actuarial valuation were based on the results of an actuarial experience study performed for the period of July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

***Discount Rate***

The discount rate that was used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determining the discount rate assumed that employee contributions will be made at the current rate and that contributions from all component units of Jefferson County will be made at the actuarially determined contribution rate pursuant to the actuarial valuation accordance with the pension funding policy of the TCRS Board of Trustees and as required by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members and to cover administrative expenses. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**Changes in the Net Pension Liability (Asset)**

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at June 30, 2014	\$ <u>10,274,419</u>	\$ <u>9,520,098</u>	\$ <u>754,321</u>
Changes for the year:			
Service cost	263,855	-	263,855
Interest	775,105	-	775,105
Differences between expected and actual experience	20,174	-	20,174
Contributions - employer	-	515,780	(515,780)
Net investment income	-	1,586,138	(1,586,138)
Benefit payments, including refunds of employee contributions	(407,085)	(407,085)	-
Administrative expense	-	(4,891)	4,891
Net changes	<u>652,049</u>	<u>1,689,942</u>	<u>(1,037,893)</u>
Balance at June 30, 2015	\$ <u>10,926,468</u>	\$ <u>11,210,040</u>	\$ <u>(283,572)</u>

*Sensitivity of the Nursing Home's proportionate share of net pension liability (asset) to changes in the discount rate*

The following presents the Nursing Home's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what the Nursing Home's proportionate share of the net position liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Nursing Home's proportionate share of the net position liability (asset)	\$ 1,186,672	\$ (283,572)	\$ (1,503,418)

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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

*Pension plan fiduciary net position*

Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

**(c) Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

*Pension expense*

For the year ended June 30, 2015, the Nursing Home recognized pension expense of \$155,666.

*Deferred outflows of resources and deferred inflows of resources*

For the year ended June 30, 2015, the Nursing Home reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 16,812	\$ -
Net difference between projected and actual earnings on pension plan investments	-	694,591
Nursing Home's contributions subsequent to the measurement date of June 30, 2014	<u>577,784</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 594,596</u></b>	<b><u>\$ 694,591</u></b>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2014," will be recognized as a reduction (increase) to net pension liability (asset) in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:			
2016	\$		(170,285)
2017			(170,285)
2018			(170,285)
2019			(170,285)
2020			3,361

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

**(d) Payable to the Pension Plan**

At June 30, 2015, the Nursing Home reported a payable of \$74,767 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

**(9) Commitments and contingencies**

The Nursing Home leases various equipment under short-term operating lease agreements. Rent expense totaled \$5,189 and \$10,282 in 2015 and 2014, respectively.

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

***Healthcare Industry***

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

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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and/or allegations concerning possible violations of fraud and abuse statutes and/or regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as repayments for patient services previously billed. Management believes the Nursing Home is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Management continues to implement policies, procedures, and compliance overview organizational structure to enforce and monitor compliance with the Health Insurance Portability and Accountability Act of 1996 and other government statutes and regulations. The Nursing Home's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

The Centers for Medicare and Medicaid Services ("CMS") have implemented a Recovery Audit Contractors ("RAC") program. The purpose of the program is to reduce improper Medicare payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. While management believes that all Medicare billings are proper and adequate support is maintained, certain aspects of Medicare billing, coding and support are subject to interpretation and may be viewed differently by the RAC auditors. As the amount of any recovery is unknown, management has not recorded any reserves related to the RAC audit at this time.

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**Notes to the Financial Statements**

**June 30, 2015 and 2014**

***Healthcare Reform***

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act was signed into law, along with the and the Health Care and Education Reconciliation Act of 2010 (collectively, the "Affordable Care Act"). The passage of the Affordable Care Act has resulted in comprehensive reform legislation that is expected to expand health care coverage to millions of currently uninsured people beginning in 2014 and provide for significant changes to the U.S. health care system over the next ten years. To help fund this expansion, the Affordable Care Act outlines certain reductions in Medicare reimbursements for various health care providers, as well as certain other changes in Medicare payment methodologies. This comprehensive health care legislation provides for extensive future rulemaking by regulatory authorities, and also may be altered or amended.

Due to the complexity of the Affordable Care Act's laws, lack of current implementation regulations and interpretive guidance, and response by participants in the health care industry to the choices available under the law, it is difficult for the Nursing Home to predict the full impact of the law on the Nursing Home's operations. Additionally, pending legislative proposals which may be adopted may affect the Nursing Home. The provisions of the legislation and other regulations implementing the provisions of the Affordable Care Act may materially impact the Nursing Home through increased costs, decreased revenues, and additional exposure to potential liability. While the full impact of the Affordable Care Act is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Nursing Home's operations.

**(10) Functional expenses**

The following is a summary of management's functional classification of operating expenses:

	<u>2015</u>	<u>2014</u>
Healthcare services	\$ 9,268,619	\$ 8,910,495
General and administrative	<u>2,075,322</u>	<u>2,034,456</u>
	<u>\$ 11,343,941</u>	<u>\$ 10,944,951</u>

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**Schedule of the Nursing Home's Proportionate Share of the Net Pension Asset  
Based on Participation in the Public Employee Pension Plan of TCRS (Required  
Supplementary Information)**

**Last Fiscal Year ending June 30**

	<u>2014</u>
The Nursing Home's proportion of the net pension asset	16.97%
The Nursing Home's proportionate share of the net pension asset	\$ 283,572
The Nursing Home's covered-employee payroll	\$ 3,492,085
The Nursing Home's proportionate share of the net pension asset as a percentage of its covered-employee payroll	8.12%
Plan fiduciary net position as a percentage of the total pension asset	874.19%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See accompanying independent auditors' report.

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**Schedules of the Nursing Home's Contributions Based on  
Participation in the Public Employee Pension Plan of TCRS (Required  
Supplementary Information)**

**Last Fiscal Year ending June 30**

	<u>2014</u>	<u>2015</u>
Actuarially determined contribution	\$ 515,780	\$ 630,751
Contributions in relation to the actuarially determined contribution	<u>515,780</u>	<u>630,751</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 3,492,085	\$ 4,006,170
Contributions as a percentage of covered-employee payroll	14.77%	15.74%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

See accompanying independent auditors' report.

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**Notes to Schedules of Required Supplementary Information**

**June 30, 2015 and 2014**

**Valuation date:** Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

**Methods and assumptions used to determine contribution rates:**

<b>Actuarial cost method</b>	<b>Frozen initial liability</b>
<b>Amortization method</b>	<b>Level dollar, closed (not to exceed 20 years)</b>
<b>Remaining amortization period</b>	<b>2 years</b>
<b>Asset valuation</b>	<b>10-year smoothed within a 20 percent corridor to market value</b>
<b>Inflation</b>	<b>3.0 percent</b>
<b>Salary increases</b>	<b>Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent</b>
<b>Investment Rate of Return</b>	<b>7.5 percent, net of investment expense, including inflation</b>
<b>Retirement age</b>	<b>Pattern of retirement determined by experience study</b>
<b>Mortality</b>	<b>Customized table based on actual experience including an adjustment for some anticipated improvement</b>
<b>Cost of Living Adjustments</b>	<b>2.5 percent</b>

See accompanying independent auditors' report.

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**Schedules of Operating Revenue**

**Years ended June 30, 2015 and 2014**

	<u>2015</u>		<u>2014</u>
Routine services - Private ICF/SNF	\$ 1,308,167	\$	1,523,565
Routine services - Medicaid ICF	4,933,019		5,476,150
Routine services - Medicaid SNF	275,148		136,912
Routine services - Hospice ICF	943,441		852,948
Routine services - commercial insurance/HMO	633,232		468,332
Medicare - Part A revenue	3,422,932		3,036,466
Medicare - Part B ancillaries	159,148		303,879
Medicaid - acuity and quality payments	386,171		-
Prior period revenue adjustments	11,591		(24,750)
Bad debts	(112,285)		(57,278)
Employee and visitor meals	9,369		8,042
Telephone	5,574		7,839
Other income	<u>12,827</u>		<u>199</u>
<b>Total operating revenue</b>	<b>\$ <u>11,988,334</u></b>	<b>\$</b>	<b><u>11,732,304</u></b>

See accompanying independent auditors' report.

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

**Schedules of Operating Expenses**

**Years ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>General and administrative:</b>		
<b>Salaries</b>		
Administrator	\$ 111,618	\$ 116,705
Assistant administrator	79,642	76,293
Administrative staff	224,543	210,138
Information tech	59,873	58,950
Payroll taxes	34,310	32,846
Forms and office supplies	42,286	38,072
Telephone	30,456	32,867
License and dues	28,489	25,112
Professional services - other	-	595
Professional services - accounting	21,451	20,375
<b>Insurance</b>		
Employee life insurance	9,162	8,936
Employee health insurance	877,717	980,315
Commercial insurance	90,950	95,629
Workers' compensation insurance	168,815	151,347
Pension Expense	155,666	57,658
Employee physicals	2,286	3,711
Training, seminars and conferences	9,605	3,582
Travel expenses	16,815	14,180
Advertising	14,218	9,435
IT services	18,409	16,869
Other compensation and awards	27,941	21,343
Flowers and gifts	4,180	2,508
Employee background checks	1,595	2,372
Minor equipment	27,503	27,472
Equipment rental	5,189	10,282
Postage and delivery	4,242	4,294
Barber and beauty expenses	7,036	8,311
Miscellaneous expenses	<u>1,325</u>	<u>4,259</u>
<b>Total general and administrative</b>	<u>\$ 2,075,322</u>	<u>\$ 2,034,456</u>
Tennessee nursing home tax	<u>\$ -</u>	<u>\$ 356,000</u>
Tennessee nursing facility assessment fee	<u>\$ 598,085</u>	<u>\$ -</u>
<b>Nursing</b>		
<b>Salaries</b>		
Director of nursing	\$ 81,999	\$ 81,941
Assistant director of nursing	61,585	58,365
Green house guide	7,616	-
Minimum Data Set	160,769	144,503
Unit managers	248,405	227,203
Registered nurses	127,256	111,862
Licensed practical nurses	1,129,125	1,140,506
Certified nursing assistants	1,846,014	1,870,998
Feeding assistants	54,600	49,518
Payroll taxes	290,552	293,558
Medical director	19,800	19,040
Supplies	279,827	261,498
Training, seminars and conferences	<u>65</u>	<u>1,175</u>
<b>Total nursing</b>	<u>\$ 4,307,613</u>	<u>\$ 4,260,167</u>

See accompanying independent auditors' report.

**JEFFERSON COUNTY NURSING HOME  
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**Schedules of Operating Expenses**

**Years ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Activities</b>		
<b>Salaries</b>		
Activities director	\$ 35,985	\$ 32,703
Activities staff	39,412	36,761
Payroll taxes	5,936	5,565
Supplies	<u>9,829</u>	<u>10,549</u>
<b>Total activities</b>	<b>\$ <u>91,162</u></b>	<b>\$ <u>85,578</u></b>
 <b>Social services</b>		
<b>Salaries</b>		
Social services director	\$ 39,921	\$ 43,334
Social services staff	126,629	117,186
Payroll taxes	<u>13,079</u>	<u>12,727</u>
<b>Total social services</b>	<b>\$ <u>179,629</u></b>	<b>\$ <u>173,247</u></b>
 <b>Dietary</b>		
<b>Salaries</b>		
Dietary supervisor	\$ 48,345	\$ 34,328
Dietary staff	339,328	337,189
Payroll taxes	30,733	30,318
Food	511,553	523,442
Supplies	38,000	39,743
Dietary consultant	40,200	31,850
Minor equipment	<u>789</u>	<u>2,322</u>
<b>Total dietary</b>	<b>\$ <u>1,008,948</u></b>	<b>\$ <u>999,192</u></b>
 <b>Housekeeping</b>		
<b>Salaries</b>		
Housekeeping supervisor	\$ 36,583	\$ 35,745
Housekeeping staff	200,350	175,089
Payroll taxes	18,771	17,121
Supplies	<u>45,661</u>	<u>47,075</u>
<b>Total housekeeping</b>	<b>\$ <u>301,365</u></b>	<b>\$ <u>275,030</u></b>
 <b>Laundry and linen</b>		
<b>Salaries</b>	\$ 107,529	\$ 106,938
Payroll taxes	8,347	8,967
Supplies	35,358	39,937
Minor equipment	362	462
Linen and bedding	<u>22,286</u>	<u>20,747</u>
<b>Total laundry and linen</b>	<b>\$ <u>173,882</u></b>	<b>\$ <u>177,051</u></b>

See accompanying independent auditors' report.

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

**Schedules of Operating Expenses**

**Years ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Plant operation and maintenance</b>		
Salaries		
Maintenance supervisor	\$ 43,734	\$ 41,047
Maintenance staff	55,270	54,446
Payroll taxes	7,624	7,931
Gas	92,048	91,354
Electricity	171,562	166,404
Water and sewer	69,623	64,261
Supplies	110,096	136,422
Minor equipment	7,338	10,021
Pest control	8,018	9,553
Waste disposal	16,963	19,585
Grounds	<u>8,517</u>	<u>12,026</u>
<b>Total plant operation and maintenance</b>	<b>\$ <u>590,793</u></b>	<b>\$ <u>613,050</u></b>
<b>Ancillary services expenses</b>		
Medicare Part A - therapy	\$ 664,431	\$ 647,808
Medicare Part A - lab	35,059	30,856
Medicare Part A - other services	31,177	27,817
HMO/MCO physical therapy	42,178	41,510
HMO/MCO occupational therapy	40,371	40,909
HMO/MCO speech therapy	22,607	21,280
Medicare Part B - physical therapy	76,199	112,316
Medicare Part B - occupational therapy	68,799	98,419
Medicare Part B - speech therapy	34,011	50,430
Private pay - physical therapy	811	-
Private pay - occupational therapy	790	-
Private pay - speech therapy	534	-
Hospice - physical therapy	-	97
Hospice - occupational therapy	95	(229)
Hospice - speech therapy	-	60
Ambulance expense	80,822	82,421
X-ray	29,570	17,958
Transportation	2,071	5,217
Respiratory services	<u>83,240</u>	<u>73,907</u>
<b>Total ancillary services expenses</b>	<b>\$ <u>1,212,765</u></b>	<b>\$ <u>1,250,776</u></b>
<b>Drugs</b>		
Drugs Part A	\$ 369,925	\$ 278,780
Drugs Part D	10,962	22,838
Pharmacy consultant	9,527	10,249
Floor stock drugs and supplies	<u>29,553</u>	<u>11,831</u>
<b>Total drugs</b>	<b>\$ <u>419,967</u></b>	<b>\$ <u>323,698</u></b>
<b>Depreciation</b>	<b>\$ <u>384,410</u></b>	<b>\$ <u>396,706</u></b>
<b>Total operating expenses</b>	<b>\$ <u>11,343,941</u></b>	<b>\$ <u>10,944,951</u></b>

See accompanying independent auditors' report.

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

**Nursing Home Statistics**

**Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Days in fiscal year	365	365
Total resident beds, end of year	160	160
Maximum patient days	58,400	58,400
Chargeable resident days	53,542	56,196
Percent of occupancy on chargeable days	91.68%	96.23%
Total revenue	\$ 11,989,368	\$ 11,732,061
Average income per chargeable day	\$ 223.92	\$ 208.77
Total expenses	\$ 11,716,119	\$ 11,262,560
Average expenses per chargeable day	\$ 218.82	\$ 200.42
Average income per chargeable day	\$ 223.92	\$ 208.77
Average expenses per chargeable day	<u>(218.82)</u>	<u>(200.42)</u>
Average net income (loss) per chargeable day	<u>\$ 5.10</u>	<u>\$ 8.35</u>
Average revenue per day	\$ 32,848	\$ 32,143
Average expenses per day	<u>(32,099)</u>	<u>(30,856)</u>
Average net income (loss) per day	<u>\$ 749</u>	<u>\$ 1,287</u>
Total salaries	\$ 5,294,072	\$ 5,161,748
Average daily salary	\$ 14,504	\$ 14,142
Total cost of meals	\$ 1,008,948	\$ 999,192
Meals served	167,110	174,351
Average cost per meal	\$ 6.04	\$ 5.73

See accompanying independent auditors' report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors  
Jefferson County Nursing Home  
Dandridge, Tennessee

We have audited, 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 the business-type activities of Jefferson County Nursing Home (the "Nursing Home"), a component unit of Jefferson County, Tennessee, as of and for the year ended June 30, 2015, 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 November 19, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Nursing Home's internal control over financial reporting (internal control) as a basis for designing 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 the 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 Nursing Home'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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Nursing Home'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 Nursing Home's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*ZBMC, PC*

Knoxville, Tennessee  
November 19, 2015