

OBION COUNTY NURSING HOME

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2015

**OBION COUNTY NURSING HOME
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INTRODUCTORY SECTION

OBION COUNTY NURSING HOME
ROSTER OF BOARD MEMBERS AND MANAGEMENT OFFICIALS
June 30, 2015

Board Members

Tracey Batey
Patsy Barker
Earnest Daniels
Timothy Gantt
Janis Lacewell
Bobby Williams
Sonny Yarbrough

Management Officials

Tom Reddick, administrator
Kristi Davis, recorder

FINANCIAL SECTION

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Independent Auditor's Report

Board of Directors
Obion County Nursing Home
Union City, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Obion County Nursing Home, an enterprise fund of Obion County, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Nursing Home's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Obion County Nursing Home as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2015 the Nursing Home adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the schedules relating to pensions on page 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

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

The schedule of operating expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of operating expenses is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015, on our consideration of the Obion County Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Obion County Nursing Home's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Union City, Tennessee

October 19, 2015

OBION COUNTY NURSING HOME
STATEMENT OF NET POSITION
June 30, 2015

ASSETS

Current Assets		
Cash on hand and in bank	\$	560,718
Accounts receivable		558,415
Inventory		<u>15,925</u>
Total current assets		1,135,058
Non-Current Assets		
Capital assets		
Land improvements	16,744	
Buildings and improvements	1,057,355	
Furniture and equipment	182,758	
Departmental equipment	227,244	
Other fixed assets	98,035	
Less accumulated depreciation	<u>(1,306,251)</u>	
Total capital assets (net of accumulated depreciation)	275,885	
Net pension asset	<u>40,590</u>	
Total non-current assets		<u>316,475</u>
Total assets		<u>1,451,533</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension outflows	<u>84,243</u>
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LIABILITIES

Current Liabilities		
Accounts payable	3,669	
Payroll withholdings	103	
Patients' trust fund	17,879	
Salaries payable	46,039	
Retirement payable	11,546	
Accrued annual and sick leave	<u>63,208</u>	
Total liabilities		<u>142,444</u>

DEFERRED INFLOWS OF RESOURCES

Deferred pension inflows	<u>143,875</u>
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NET POSITION

Investment in capital assets	275,885
Unrestricted	<u>973,572</u>
Total net position	<u>\$ 1,249,457</u>

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

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

For the Year Ended June 30, 2015

	<u>Amount</u>	<u>Percent</u>
Operating Revenues		
Medicaid patients	\$ 2,243,084	57.24
Medicare patients	1,224,071	31.24
Private patients	423,955	10.82
Hospice	25,660	0.65
Other revenue	<u>2,021</u>	<u>0.05</u>
Total operating revenues	<u>3,918,791</u>	<u>100.00</u>
 Operating Expenses		
Operating expenses - schedule	3,738,870	95.41
Depreciation	<u>52,992</u>	<u>1.35</u>
Total operating expenses	<u>3,791,862</u>	<u>96.76</u>
 Operating income	 126,929	 3.24
 Non-Operating Revenue		
Interest income	1,637	0.04
Pension income	<u>4,240</u>	<u>0.11</u>
Total non-operating revenues	<u>5,877</u>	<u>0.15</u>
 Income before transfers	 132,806	 3.39
 Transfers		
Transfers to general fund	<u>(25,000)</u>	<u>(0.64)</u>
 Change in net position	 <u>107,806</u>	 <u>2.75</u>
 Net position - July 1, 2014, as originally reported	 1,249,176	
Restatement for adoption of pension standards	<u>(107,525)</u>	
Net position - July 1, 2014, as restated	<u>1,141,651</u>	
 Net position - June 30, 2015	 <u>\$ 1,249,457</u>	

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

OBION COUNTY NURSING HOME
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2015

Cash Flows from Operating Activities

Cash received from patients	4,082,389
Cash paid to suppliers	(1,826,590)
Cash paid to employees	(1,926,979)
Cash paid for employee pensions	(84,243)
Other operating revenue	<u>2,021</u>
Net cash provided by operating activities	246,598

Cash Flows from Non-Capital and Related Financing Activities

Transfer to county general fund	(25,000)
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Cash Flows from Capital and Related Financing Activities

Purchase of capital assets	(56,424)
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Cash Flows from Investing Activities

Interest on investments	<u>1,637</u>
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Net increase in cash **166,811**

Cash - July 1, 2014 393,907

Cash - June 30, 2015 \$ 560,718

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

Operating income		\$ 126,929
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	52,992	
Deferred pension outflows	(84,243)	
Decrease in accounts receivable	165,979	
Increase in inventory	(6,876)	
Decrease in accounts payable	(11,706)	
Decrease in patients' trust fund	(360)	
Decrease in salaries payable	(4,152)	
Increase in retirement payable	11,546	
Decrease in accrued annual and sick leave	<u>(3,511)</u>	
Total adjustments		<u>119,669</u>
Net cash provided by operating activities		<u><u>\$ 246,598</u></u>

Noncash Investing and Non-capital Financing Activities

Pension income		\$ (4,240)
Net pension asset		40,590
Deferred inflows related to pensions		(143,875)
Restatement of beginning net position for beginning pension liability		<u>107,525</u>
Net effect of noncash pension activity		<u><u>\$ -</u></u>

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

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

June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The Obion County Nursing Home accounts for its financial position and results of operations in accordance with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Generally accepted accounting principles for proprietary fund types are those applicable to similar businesses in the private sector and are reported using the economic resources measurement focus, which reports all inflows, outflows, and balances affecting or reflecting an entity's net position. Proprietary fund types are accounted for on the accrual basis, whereby income is recognized as it is earned and expenses are recognized as they are incurred, whether or not cash is received or paid out at that time.

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

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

C. Impact of recently issued accounting pronouncements

The Nursing Home adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions— an amendment of GASB Statement No. 27*, and Statement 71, *Pension Transition for Contributions Made Subsequent to Measurement Date* during the current year. Statement 68 affects governments that participate as employers in state and local government pension plans and was effective for fiscal years beginning after June 15, 2014. Statement 71 was effective for years ending on or after June 15, 2015. The new pension standards establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. Statement 68 details the recognition and disclosure requirements for employers with defined benefit pension plans and for employers whose employees are provided with defined contribution pensions. The objective of Statement 68 is to improve accounting and financial reporting by state and local governments for pensions. The adoption of these standards resulted in the restatement of certain beginning balances to record pension amounts as of July 1, 2014. Net pension liability was increased by \$158,128 and deferred outflows of resources was increased by \$50,603. As a result, beginning net position decreased by \$107,525.

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position

Cash and Investments

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

OBION COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

Accounts Receivable

An allowance for doubtful accounts has not been recorded in these financial statements. The direct write-off of bad accounts is made at intervals during each fiscal year. The use of this method does not materially distort the presentation of the financial statements.

Inventory

At June 30, 2015, inventory was counted and valued at current replacement cost by management. Although this method is not recognized by generally accepted accounting principles, it does not materially distort the presentation of the financial statements.

Capital Assets

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

Compensated Absences

Accumulated unpaid annual leave and sick leave are accrued at the end of each fiscal year. As of June 30, 2015, annual leave amounted to \$16,845 and sick leave was \$46,363, for a total accrual of \$63,208. All accrued leave has been reported as a current liability in the statement of net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Nursing Home has one item related to pensions that qualifies for reporting in this category as of June 30, 2015. See the pension disclosure for details concerning this balance.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Nursing Home has various items related to pensions that qualify for reporting in this category. See the pension disclosure for the items that comprise this financial statement element.

Pensions

For purposes of measuring the net pension liability, 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 administered by the Tennessee Consolidated Retirement System (TCRS) and additions 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.

OBION COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Net position flow assumption

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

NOTE 2 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2015, the Nursing Home had all deposits in interest-bearing checking accounts. There were no investments held by the Nursing Home at year end.

Custodial Credit Risk

The Nursing Home's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statutes required that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Nursing Home's agent in the Nursing Home's name, or by the Federal Reserve Banks acting as third party agents. As of June 30, 2015, all bank deposits were fully collateralized or insured.

B. Capital Assets

Capital assets activity during the year was as follows:

Description	Balance 7/01/14	Additions	Disposals	Balance 6/30/15
Capital assets, being depreciated				
Land improvements	\$ 16,744	\$ -	\$ -	\$ 16,744
Buildings and improvements	1,057,355	-	-	1,057,355
Furniture and equipment	138,834	43,924	-	182,758
Departmental equipment	227,244	-	-	227,244
Other fixed assets	120,506	12,500	34,971	98,035
Total capital assets being depreciated	<u>1,560,683</u>	<u>56,424</u>	<u>34,971</u>	<u>1,582,136</u>
Less accumulated depreciation				
Land improvements	12,928	200	-	13,128
Buildings and improvements	908,308	28,539	-	936,847
Furniture and equipment	100,987	9,129	-	110,116
Departmental equipment	152,074	11,975	-	164,049
Other fixed assets	113,933	3,149	34,971	82,111
Total accumulated depreciation	<u>1,288,230</u>	<u>52,992</u>	<u>34,971</u>	<u>1,306,251</u>
Total capital assets being depreciated, net	<u>\$ 272,453</u>	<u>\$ 3,432</u>	<u>\$ -</u>	<u>\$ 275,885</u>

OBION COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

C. Transfers

The Board approved a \$25,000 operating transfer to the General Fund for the year ended June 30, 2015.

NOTE 3 – OTHER INFORMATION

A. Pension Plan

Plan description. Employees of Obion County Nursing Home, an enterprise fund of Obion County, Tennessee, are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The Nursing Home employees comprise 7.71 percent of the plan based on census data. 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 all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at 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.

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute five percent of salary. Obion County makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, employer contributions for Obion County Nursing Home were \$84,243 based on a rate of 6.24 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Obion 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.

Pension Liabilities (Assets), Pension Expense (Income), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liability (asset). The net pension liability (asset) was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. Obion County Nursing Home's proportion of the net pension liability was based on census data of the Nursing Home's employees relative to all employees covered under

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

June 30, 2015

Obion County's plan. At the June 30, 2014, measurement date, Obion County Nursing Home's proportion was 7.71 percent.

Pension income. For the year ended June 30, 2015, Obion County Nursing Home recognized pension income of \$4,240.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, Obion County 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	\$ -	\$ 20,984
Net difference between projected and actual earnings on pension plan investments	-	122,891
Contributions subsequent to the measurement date of June 30, 2014	84,243	<i>(not applicable)</i>
Total	\$ 84,243	\$ 143,875

The amount shown above for contributions subsequent to the measurement date will be recognized as a reduction (increase) in net pension liability (asset) in the following measurement period. 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 Ending June 30:	
2016	\$(35,969)
2017	(35,969)
2018	(35,969)
2019	(35,968)
2020	-
Thereafter	-

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

Actuarial assumptions. The total pension liability in the 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

OBION COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study and included some adjustment for 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 July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

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 rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset 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 rates 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:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>
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%
		<u>100%</u>

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 used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Obion County will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid 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. 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.

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents Obion County Nursing Home's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Obion County Nursing Home's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

OBION COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Obion County Nursing Home's proportionate share of net pension liability (asset)	<u>\$ 17,081</u>	<u>\$ (40,590)</u>	<u>\$ (219,654)</u>

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

Payable to the Pension Plan

At June 30, 2015, Obion County Nursing Home reported a payable of \$11,546 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

B. Risk Management

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

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

**OBION COUNTY NURSING HOME
REQUIRED SUPPLEMENTARY INFORMATION**
June 30, 2015

**Schedule of Obion County Nursing Home's Proportionate Share
of the Net Pension Asset
Public Employee Pension Plan of TCRS**
Fiscal Years Ending June 30,

	2014
Obion County Nursing Home's proportion of the net pension asset	(7.71%)
Obion County Nursing Home's proportionate share of the net pension asset	\$ (40,590)
Obion County Nursing Home's covered employee payroll	\$ 1,254,760
Obion County Nursing Home's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	(3.23%)
Plan fiduciary net position as a percentage of the total pension liability	102.10%

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.

**Schedule of Obion County Nursing Home's Contributions
Public Employee Pension Plan of TCRS**
Fiscal Years Ended June 30,

	2014	2015
Actuarially determined contributions (ADC)	\$ 81,105	\$ 84,243
Contributions in relation to the actuarially determined contribution	81,105	84,243
Contribution deficiency (excess)	\$ -	\$ -
 Obion County Nursing Home's covered-employee payroll	 \$ 1,254,760	 \$ 1,350,051
Contributions as a percentage of Obion County Nursing Home's covered-employee payroll	6.42%	6.24%

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.

SUPPLEMENTARY INFORMATION SECTION

OBION COUNTY NURSING HOME
SCHEDULE OF OPERATING EXPENSES
For the Year Ended June 30, 2015

		<u>Percent of Total</u>
General and administrative expenses		
Salary - administrator	\$ 109,999	2.90
Salaries - administrative	81,819	2.16
Freight and postage	1,562	0.04
Office supplies and expense	21,992	0.58
Minor equipment	8,524	0.22
Conventions and seminars	1,048	0.03
Travel	5,689	0.15
Advisory board fees and expense	7,500	0.20
Employee insurance	202,464	5.34
Employee payroll taxes	142,881	3.77
Workers compensation insurance	41,758	1.10
Unemployment expense	4,171	0.11
Employee activities and awards	4,140	0.11
Extra labor	32,910	0.87
Liability insurance	35,325	0.93
Court reporter	1,200	0.03
Contract services - payroll	550	0.01
Taxes and licenses	188,156	4.96
Dues and subscriptions	4,918	0.13
Legal and audit fees	6,725	0.18
Advertising and promotion	6,281	0.17
Telephone	3,302	0.09
Uniforms	<u>1,246</u>	<u>0.03</u>
Total general and administrative expenses	<u>914,160</u>	<u>24.11</u>
Medical and Nursing		
Salaries	1,183,381	31.19
Minor equipment	10,727	0.28
Nurses notes and forms	408	0.01
Training and seminars	245	0.01
Training supplies	641	0.02
Medical supplies	78,317	2.07
Medical director	13,600	0.36
Pharmacy consultant	<u>1,344</u>	<u>0.04</u>
Total medical and nursing expenses	<u>1,288,663</u>	<u>33.98</u>
Patient Activities		
Salaries	43,679	1.15
Special events	1,862	0.05
Supplies	<u>14,320</u>	<u>0.38</u>
Total patient activities	<u>59,861</u>	<u>1.58</u>
Social Services		
Salaries	<u>62,992</u>	<u>1.66</u>
Dietary		
Salaries	193,712	5.11
Raw food	167,484	4.42
Training	145	-
Minor equipment	1,516	0.04
Supplies	14,968	0.39
Consultant	<u>5,280</u>	<u>0.14</u>
Total dietary expenses	<u>383,105</u>	<u>10.10</u>

See independent auditor's report

OBION COUNTY NURSING HOME
SCHEDULE OF OPERATING EXPENSES
For the Year Ended June 30, 2015

		Percent of Total
Housekeeping		
Salaries	117,915	3.11
Minor equipment	770	0.02
Supplies	<u>8,902</u>	<u>0.23</u>
Total housekeeping expenses	<u>127,587</u>	<u>3.36</u>
Laundry		
Salaries	93,989	2.47
Minor equipment	425	0.01
Supplies	4,791	0.13
Linen and bedding	<u>4,400</u>	<u>0.12</u>
Total laundry expenses	<u>103,605</u>	<u>2.73</u>
Maintenance		
Salaries	31,830	0.83
Repair and maintenance	43,566	1.15
Minor equipment	290	0.01
Supplies	617	0.02
Contract services - BFI	3,682	0.10
Contract services - fire	3,380	0.09
Pest control	1,772	0.05
Fuel and gas	48,912	1.29
Electricity	37,613	0.99
Waste disposal service	3,774	0.10
Water and sewage	<u>11,372</u>	<u>0.30</u>
Total maintenance expenses	<u>186,808</u>	<u>4.93</u>
Other operating expenses		
Skilled - pharmacy	109,529	2.89
Skilled - xray	6,751	0.18
Skilled - lab	4,391	0.12
Skilled - medical	669	0.02
PT - Part A	72,644	1.92
PT - Part B	35,083	0.93
OT - private	501	0.01
OT - Part A	74,927	1.98
OT - Part B	46,518	1.23
ST - Part A	67,932	1.79
ST - Part B	35,021	0.92
Medicaid/Medicare fees	<u>158,123</u>	<u>4.16</u>
Total other operating expenses	<u>612,089</u>	<u>16.15</u>
Depreciation	<u>52,992</u>	<u>1.40</u>
Total operating expenses	<u>\$ 3,791,862</u>	<u>100.00</u>

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INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

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



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**Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Obion County Nursing Home

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Obion County Nursing Home, an enterprise fund of Obion County, Tennessee, as of and for the year ended June 30, 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 October 19, 2015.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2015-001, that we consider to be significant deficiencies.

Board of Directors
Obion County Nursing Home

Compliance and Other Matters

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

Obion County Nursing Home's Response to Finding

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

Purpose of this Report

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

Alexander Thompson Arnold PLLC

Union City, Tennessee
October 19, 2015

OBION COUNTY NURSING HOME
SCHEDULE OF FINDINGS
For the year ended June 30, 2015

2015-001 Segregation of Duties

Condition: Due to the size of the staff, the Obion County Nursing Home cannot fully segregate the record-keeping, custodial, and authorization functions of its internal accounting controls for the year ended June 30, 2015.

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

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

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

Management's response: *The Administrator has segregated the record-keeping at this facility as much as is practical due to the limited staff available. We have hired an additional person to further segregate duties. We currently have three people over the primary office duties – administrator, office manager and human resource administrator.*

OBION COUNTY NURSING HOME
SCHEDULE OF PRIOR YEAR FINDINGS
For the year ended June 30, 2015

Financial Statement Findings

Finding No.	Title	Status
1997-001	Segregation of Duties	repeated

Single Audit Findings and Questioned Costs

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