OVERTON COUNTY HEALTH AND REHAB CENTER

LIVINGSTON, TENNESSEE

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2015

C O N T E N T S

INTRODUCTORY SECTION

OVERTON COUNTY HEALTH AND REHAB CENTER

Livingston, Tennessee

Board of Directors and Administrator (unaudited)

June 30, 2015

Jordan Danner, Chairperson

Randall Boswell, Vice Chairperson

Billie Phipps

Frank Martin

Darwin Clark

Jennifer Bouldin, Administrator

FINANCIAL SECTION

JOBE, HASTINGS & ASSOCIATES
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Joel H. Jobe *(1944 – 2006)*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Overton County Health and Rehab Center
Livingston, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Overton County Health and Rehab Center, a component unit of Overton County, Tennessee as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Overton County Health and Rehab Center'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 respective financial position of the business-type activities of Overton County Health and Rehab Center, a component unit of Overton County, Tennessee, as of June 30, 2015, and the respective 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.

Board of Directors
Livingston, Tennessee

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that certain pension information on pages 15-16 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 Overton County Health and Rehab Center's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 15, 2015 on our consideration of Overton County Health and Rehab Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Overton County Health and Rehab Center's internal control over financial reporting and compliance.

Jobe, Hastings & Associates

Certified Public Accountants

Murfreesboro, Tennessee
October 15, 2015

OVERTON COUNTY HEALTH AND REHAB CENTER

Livingston, Tennessee

Statement of Net Position

June 30, 2015

ASSETS		
Current Assets-		
Cash	$	700,209
Cash - restricted		98,387
Certificates of deposit		1,644,216
Cash - patients' funds		13,558
Patient accounts receivable, net of allowance of $130,000		1,012,431
Accrued interest receivable		2,319
Estimated third-party payor settlements		45,880
Prepaid expense		500
Deposit on equipment		1,481
TOTAL CURRENT ASSETS	$	3,518,981
Property and Equipment-		
Land improvements	$	95,699
Building and improvements		3,073,123
Transportation equipment		62,869
Furniture and equipment		1,135,687
	$	4,367,378
Less: Accumulated depreciation		3,181,295
	$	1,186,083
Land		115,000
Construction in progress		6,015,111
TOTAL PROPERTY AND EQUIPMENT	$	7,316,194
Other Assets -		
Net pension asset	$	343,520
TOTAL OTHER ASSETS	$	343,520
TOTAL ASSETS	$	11,178,695
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions	$	118,909
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	118,909
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$	11,297,604
LIABILITIES		
Current Liabilities-		
Accounts payable - trade	$	201,264
Retainage payable		92,424
Accrued salaries and wages payable		86,089
Accrued vacation		113,727
Accrued payroll taxes and employee withholdings		20,450
Accrued interest payable		23,000
Patients' funds held in trust		13,558
Current portion of note payable to primary government		165,000
TOTAL CURRENT LIABILITIES	$	715,512
Long-term Liabilities -		
Note payable to primary government, less current portion	$	3,500,000
TOTAL LONG-TERM LIABILITIES	$	3,500,000
TOTAL LIABILITIES	$	4,215,512
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	$	427,036
TOTAL DEFERRED INFLOWS OF RESOURCES	$	427,036
NET POSITION		
Net investment in capital assets	$	3,540,933
Restricted for capital project		92,519
Unrestricted net position		3,021,604
TOTAL NET POSITION	$	6,655,056
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	$	11,297,604

See notes to financial statements.

OVERTON COUNTY HEALTH AND REHAB CENTER

Livingston, Tennessee

Statement of Revenues, Expenses and Changes in Fund Net Position

For the Year Ended June 30, 2015

Operating Revenues -		
Net patient service revenue	$	7,355,681
Other revenue		48,470
	$	7,404,151
Operating Expenses -		
Medical and nursing services	$	2,077,664
Dietary services		976,385
Therapy and ancillary services		879,984
Administrative and general		597,272
Employee benefits		537,411
Plant operation and maintenance		424,107
Bed license fees		399,500
Housekeeping services		212,027
Depreciation		141,427
Laundry and linen		140,067
Social services		84,273
Recreational activities		67,700
Other operating expenses		42,610
Medical records		34,289
	$	6,614,716
OPERATING INCOME	$	789,435
Nonoperating Revenues (Expenses) -		
Interest income	$	11,675
	$	11,675
CHANGE IN NET POSITION	$	801,110
Net Position at beginning of year	$	5,960,303
Prior period adjustment		(106,357)
Net Position at beginning of year, as restated	$	5,853,946
NET POSITION AT END OF YEAR	$	6,655,056

See notes to financial statements.

OVERTON COUNTY HEALTH AND REHAB CENTER

Livingston, Tennessee

Statement of Cash Flows

For the Year Ended June 30, 2015

Cash Flows from Operating Activities -		
Received from residents and third-party payors	$	7,223,728
Received from others		25,629
Paid to suppliers for goods and services		(3,533,242)
Paid to employees for services		(3,010,128)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	705,987
Cash Flows from Capital and Related Financing Activities -		
Purchase of property and equipment	$	(112,705)
Disbursements for construction in progress		(3,491,746)
Payments on note to primary government		(165,000)
Capitalized interest paid on note to primary government		(95,806)
Deposit on equipment		(1,481)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	$	(3,866,738)
Cash Flows from Investing Activities -		
Interest earned	$	871
Certificates of deposit withdrawals		821,576
NET CASH PROVIDED BY INVESTING ACTIVITIES	$	822,447
NET DECREASE IN CASH	$	(2,338,304)
Cash, July 1, 2014		3,136,900
CASH, JUNE 30, 2015	$	798,596
Reconciliation of Operating Income to Net Cash Provided by Operating Activities -		
Operating income	$	789,435
Adjustments to reconcile operating income to net cash		
provided by operating activities -		
Depreciation		141,427
Provision for bad debts		107,284
Changes in assets and liabilities -		
Increase in patient accounts receivable		(279,325)
Decrease in estimated third-party payor settlements		40,088
Decrease in prepaid expense		15,003
Increase in net pension asset		(22,841)
Increase in deferred outflows related to pensions		(118,909)
Decrease in accounts payable-trade		(7,051)
Increase in accrued salaries and wages payable		12,338
Increase in accrued vacation		12,419
Increase in accrued payroll taxes and employee withholdings		16,119
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	705,987
Non-Cash Investing, Capital, and Financing Activities -		
Interest earnings added to certificate of deposit	$	18,842
Increase in construction in progress with accounts payable		705
Increase in construction in progress and retainage payable		135,308
Accrued construction period interest included in construction in progress		23,000
Increase in net pension asset and deferred inflows related to pensions		427,036
	$	604,891
Reconciliation to Cash and Cash Equivalents		
Presented in Statement of Net Position -		
Cash	$	700,209
Cash - restricted		98,387
CASH, JUNE 30, 2015	$	798,596

See notes to financial statements.

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Overton County Health and Rehab Center (the Center) is presented to assist in understanding the Center's financial statements. The financial statements and notes are representations of the Center's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles.

Organization - Overton County Health and Rehab Center is a non-profit corporation chartered under the laws of the State of Tennessee on April 5, 1962, operating as a political subdivision of Overton County, Tennessee (the County). The purpose of the Center is to provide nursing care to residents primarily from the Overton County area. The corporation is managed by a board of five directors who are county commissioners, appointed by the County Commission of Overton County, Tennessee.

Financial Reporting Entity – Component Unit - The Center is a component unit of the primary government of Overton County, Tennessee. The Center reports its financial information separately from Overton County; however, the County in its financial report also presents the Center's financial information.

Legally, the Center is a separate nonprofit entity that has considerable legal, financial and administrative autonomy. However, as the governing board is not elected but instead is entirely appointed by the County's board of Commissioners, and the County is contingently liable for all of the Center's debt obligations, the Center cannot be a primary government. Instead it qualifies as a component unit according to the directives of the Governmental Accounting Standards Board (GASB).

The GASB specifies that component units must be legally separate organizations which have financial accountability to a primary government. Financial accountability exists prima facie if a special-purpose government is not fiscally independent. GASB states that to be fiscally independent, the government has to have the authority to do all of three activities. One of these activities is to issue bonded debt without approval by another government. Overton County Health and Rehab Center may not issue debt without Overton County, Tennessee's approval and the County remains contingently liable for all debt obligations. Because the Center is both a legal entity and financially accountable to the primary government of Overton County as the County Commission appoints all members of the governing board and by the nature of its fiscal dependence on Overton County as described above, it is a component unit of Overton County, Tennessee.

At June 30, 2015, there was a note payable between Overton County and the Center. This is described in detail in Note K. The Center did not engage in any other activities that were subject to the approval of Overton County.

Basis of Presentation - The financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America.

As a component unit of Overton County, the accounts of the Center are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Center's assets, liabilities, net position, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured by a pledge of the net revenues from fees and charges of the activity, or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting and financial reporting treatment applied to the Center is determined by its measurement focus. The transactions of the Center are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net position (i.e. total assets plus net deferred outflows net of total liabilities and net deferred inflows) is segregated into net investment in capital assets, restricted for capital project, and unrestricted components.

When both restricted and unrestricted resources are available for use, it is the Center's policy to use restricted resources first and then unrestricted resources as they are needed.

Cash Flow - Cash and Cash Equivalents - Overton County Health and Rehab Center presents its cash flow statement using the direct method. For purposes of cash flow presentation, the Center considers cash in operating bank accounts, cash on hand, and certificates of deposit, which have original maturities of three months or less as cash and cash equivalents. At June 30, 2015, there were no certificates of deposit that qualified as cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable are stated at the amount that the Center expects to collect from outstanding balances. The Center provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based upon a review of outstanding receivables, historical collection information and existing economic conditions. The allowance for doubtful accounts was $130,000 at June 30, 2015. Account balances are charged against the allowance after reasonable collection efforts have been exhausted and the potential for recovery is considered remote.

Net Patient Revenue - Gross patient revenue is recorded on an accrual basis based on services rendered at amounts equal to established rates. Allowances for contractual adjustments are recorded for the differences between established rates and amounts estimated to be paid by the Medicare and Medicaid programs and other third party payors. Contractual adjustments are deducted from gross patient revenue to determine net patient revenue. Amounts paid under the Medicare and Medicaid programs are generally based on fixed rates per patient day, adjusted prospectively. All amounts earned under the Medicare, Medicaid, and other governmental programs are subject to review by the third party payors. Any differences between estimated settlements and final determinations are reflected in operations in the year finalized.

Property and Equipment - Property and equipment are stated at cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. There was $94,986 of interest capitalized during the year ended June 30, 2015. Purchases in excess of $1,000 are capitalized. For financial statement purposes, depreciation of property and equipment is provided using the straight-line method. The Center estimates the useful lives of the respective classes of plant and equipment as follows:

Land improvements	5-20 years
Building and improvements	5-50 years
Transportation equipment	4 - 5 years
Equipment	3-25 years

Maintenance and repairs are charged to operations when incurred. The Center eliminates the costs and related allowances from the accounts for properties sold or retired, and any resulting gains or losses are included in income.

Accrued Vacation - Center employees earn vacation by prescribed formula based on length of service. The Center accrues vacation pay when earned.

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pensions – For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (income), information about the fiduciary net position of Overton County's participation in the Public Employee Retirement Plan of 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 the Public Employee Retirement Plan. 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 of TCRS. Investments are reported at fair value.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes – The Internal Revenue Service has determined that the Center is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes.

Operating Revenues and Expenses – The Center's operating revenues and expenses consist of revenues earned and expenses incurred relating to the operation and maintenance of its principal ongoing operations. All other revenues and expenses are reported as non-operating revenues and expenses and consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Subsequent Events - Management has evaluated subsequent events through October 15, 2015, the date the financial statements were available to be issued.

Note B - CASH AND CERTIFICATES OF DEPOSIT

The Center is authorized to make investments in bonds, notes or treasury bills of the United States, Federal Loan Bank bonds, Federal Home Loan Bank notes and bonds, Federal National Mortgage Association notes and debentures, banks or cooperative debentures, or any of its other agencies, or obligations guaranteed as to principal and interest by the United States or any of its agencies with a maturity not greater than one year, or in the pooled investment fund established under Tennessee law.

During the year ended June 30, 2015, the board of directors chose to limit the investment of funds to demand deposits and certificates of deposit accounts at banking institutions.

At June 30, 2015, the carrying amount of cash deposits, including patient funds, was $798,595 and the bank balance was $996,245. At June 30, 2015, the carrying amount of the certificate of deposit was $1,644,216 and the bank balance was $1,644,216. At June 30, 2015, the entire bank balance was covered by federal depository insurance, or pledged securities held as collateral in another institution in the name of the Center.

Note C - PATIENT FUNDS HELD IN TRUST

At June 30, 2015, the Center held funds in the amount of $13,558 on behalf of the residents.

The Center is required to maintain a cash account as a depository for patient funds. The fund is restricted in use and can be used only for providing spending money for patients, purchasing supplies for patients with cash in the fund, or paying amounts due to the Center for patient care, provided the amount does not include monies stipulated for patients' use only. All funds in excess of $100 per recipient are required to be placed in an insured interest-bearing account.

Note D - CONCENTRATION OF CREDIT RISK

The Center grants credits without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from patients and third-party payors are as follows:

Medicaid	35.89 %
Medicare	35.13 %
Private	15.48 %
Insurance	13.50 %

Note E - CAPITAL ASSETS

Capital assets are summarized as follows:

	July 1, 2014	Additions	Deletions	June 30, 2015
Capital assets, not being depreciated -				
Land	$ 115,000			$ 115,000
Construction in progress	2,792,407	$ 3,222,704		6,015,111
Subtotal	$ 2,907,407	$ 3,222,704	$ - 0 -	$ 6,130,111
Capital assets, being depreciated -				
Land improvements	$ 101,108		$ 5,409	$ 95,699
Building and improvements	3,058,480	$ 15,317	674	3,073,123
Transportation equipment	62,869			62,869
Equipment	1,146,304	97,388	108,005	1,135,687
Subtotal	$ 4,368,761	$ 112,705	$ 114,088	$ 4,367,378
Less accumulated depreciation -				
Land improvements	$ (52,066)	$ (4,877)	$ 5,409	$ (51,534)
Building and improvements	(2,061,528)	(89,937)	674	(2,150,791)
Transportation equipment	(52,897)	(7,203)		(60,100)
Equipment	(987,465)	(39,410)	108,005	(918,870)
Subtotal	$ (3,153,956)	$ (141,427)	$ 114,088	$ (3,181,295)
Capital assets, being depreciated net	$ 1,214,805	$ (28,722)	$ - 0 -	$ 1,186,083
Total capital assets, net	$ 4,122,212	$ 3,193,982	$ - 0 -	$ 7,316,194

Note F - PENSION PLAN

General Information about the Pension Plan

Plan Description – Employees of Overton County Health and Rehab Center, are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the Tennessee Consolidated Retirement System (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 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. Since Overton County Health and Rehab Center is a component unit of Overton County and does not have its own distinct agent multiple-employer pension plan, the plan is treated as a cost-sharing plan for purposes of Overton County Health and Rehab Center's stand-alone financial statements.

Note F - PENSION PLAN (continued)

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 5 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 10 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 2nd 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 3 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. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Contributions - Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Overton County Health and Rehab Center 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 Overton County Health and Rehab Center were $118,909 based on a rate of 5.41 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Overton 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.

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

Pension Assets - At June 30, 2015, Overton County Health and Rehab Center reported an asset of $343,520 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. Overton County Health and Rehab Center's proportion of the net pension asset was based on a projection of Overton County Health and Rehab Center's long-term share of contributions to the pension plan relative to the actuarially determined projected contributions of all participating entities. At June 30, 2015, Overton County Health and Rehab Center's proportion was 17.80 percent, representing the first time presentation of this proportion.

Pension Income - For the year ended June 30, 2015, Overton County Health and Rehab Center recognized a pension income of $22,841.

Note F - PENSION PLAN (continued)

Deferred Outflows of Resources and Deferred Inflows of Resources - For the year ended June 30, 2015, Overton County Health and Rehab Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflows of Resources	Inflows of Resources
Differences between expected and actual experience		$ 147,453
Net difference between projected and actual earnings on pension plan investments		279,583
Changes in proportion and differences between the Center's contributions and proportionate share of contributions		
Contributions subsequent to the measurement date of June 30, 2014 (1)	$ 118,909	
Total	$ 118,909	$ 427,036

(1) 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 following measurement period.

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	**$** (99,386)
2017	(99,386)
2018	(99,386)
2019	(99,386)
2020	(29,491)
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 as of 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
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 July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Note F - PENSION PLAN (continued)

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 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 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 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 Overton County Health and Rehab Center 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 Proportionate Share of Net Pension Liability (Asset) to Changes in the Discount Rate - The following presents Overton County Health and Rehab Center's proportionate share of the net pension liability (asset) of Overton County calculated using the discount rate of 7.5 percent, as well as what Overton County Health and Rehab Center'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:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Overton County Health and Rehab Center's net pension liability (asset)	$ 223,236	$ (343,520)	$ (808,796)

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in a separately issued Overton County financial report.

Note F - PENSION PLAN (continued)

Payable to the Pension Plan

At June 30, 2015, Overton County Health and Rehab Center reported a payable of $16,499 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

Note G - RISK MANAGEMENT

Risks related to the operation of the Center are managed through the purchase of commercial insurance policies. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years and there have been no significant reductions in insurance coverage for the current year or for the prior five years.

Note H - HEALTH CARE REGULATIONS

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 allegations concerning possible violations of fraud and abuse statutes and 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 that the Center is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Note I - PROFESSIONAL LIABILITY CLAIMS AND INSURANCE

The long-term health care industry has experienced a dramatic increase in personal injury and wrongful death claims based on alleged negligence by nursing homes and their employees in providing care to residents. The Center is subject to claims and suits which arise in the ordinary course of business. In the opinion of management, the ultimate resolution of such pending legal proceedings has been adequately provided for through commercial insurance.

Note J - CASH - RESTRICTED

Restricted cash is in a separate cash account created during the fiscal year ended June 30, 2012, with the net proceeds from the General Obligation Bonds, Series 2012, (the “Bonds”) issued by Overton County, Tennessee, as further explained in Note K below. This cash is restricted to be used only for purposes as authorized by a resolution passed by the County. The cash is to be disbursed solely to pay costs of issuance of the Bonds and costs of the project, as also described in Note K below. After completion of the project, any funds remaining in this restricted account are to be deposited to the County’s debt service fund. The carrying amount of this restricted cash account at June 30, 2015 was $5,868. In addition, cash held as retainage that is due to the contractor at the end of the project is being deposited into a separate bank account. The carrying amount of this cash account at June 30, 2015 was $92,519. Total restricted cash at June 30, 2015 was $98,387.

Note K - NOTE PAYABLE TO PRIMARY GOVERNMENT

On February 13, 2012, Overton County, Tennessee (the “County”) passed a resolution to issue general obligations bonds in the aggregate principal amount of $4,150,000, for the purpose of financing land acquisition, design and site development for the construction and equipping of a health and rehab facility (the “Facility”) of the County. The bonds, known as the General Obligation Bonds, Series 2012, were issued May 9, 2012 and are payable from unlimited ad valorem taxes to be levied on all taxable property within the County. The bonds are additionally payable from, although not secured by, revenues of the Facility. The full faith and credit of the County are irrevocably pledged for the payment of principal and interest on the Bonds. Funds needed for the payment of the Bonds may be reduced by revenues of the Facility.

It is the intent of the Center to repay the County bonds from revenues from the Center. Therefore, the Center has a note

Note K - NOTE PAYABLE TO PRIMARY GOVERNMENT (continued)

payable to the primary government (the "County") in the exact amount of the balance of the bonds at June 30, 2015. The County has a liability for the bonds on the County's books with a corresponding amount due from the Center. The Center is repaying the indebtedness to the County in the form of payments on the bonds to U.S. Bank National Association according to the terms of the bonds. The bonds have a maturity date of April 1, 2033 and bear fixed interest rates ranging from 1.00% to 3.125%. The net proceeds of the bonds were deposited into a separate cash account of the Center known as the "Construction Fund" as required by the Bond resolution.

The annual debt service requirements to maturity are as follows:

Year Ending June 30,	Principal	Interest
2016	$ 165,000	$ 92,506
2017	165,000	89,206
2018	170,000	85,906
2019	175,000	82,506
2020	175,000	79,006
2021-2025	950,000	336,781
2026-2030	1,105,000	211,888
2031-2033	760,000	47,025
	$ 3,665,000	$ 1,024,824

Activity related to the note payable for the year ended June 30, 2015, was as follows:

Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due Within One Year
$ 3,830,000	$	$ 165,000	$ 3,665,000	$ 165,000

Note L - COMMITMENTS

The Center entered into an agreement during the prior year for the construction of a health and rehab facility (the "Cottage") of the County. The status of the agreement at June 30, 2015 is as follows:

	Authorization	To Date	Commitment
J. Cumby Construction	$ 4,679,603	$ 4,621,179	$ 58,424

The Cottage is expected to open in the fall of 2015.

Note M - NET POSITION – RESTRICTED FOR CAPITAL PROJECT

The portion of net position that is restricted for the capital project as described in notes J and K is equal to the amount of the restricted cash held as retainage in the amount of $92,519 at June 30, 2015.

Note N - CHANGE IN ACCOUNTING PRINCIPLE / PRIOR PERIOD ADJUSTMENT

The Center adopted GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" for the year ended June 30, 2015. As a result, a prior period adjustment was made to retroactively restate net position in the amount of $(106,357) made up of the following:

Initial establishment of the net pension liability as of July 1, 2013	$ (205,675)
Recording of employer contributions made during the year ended June 30, 2014	99,318
Prior period adjustment	$ (106,357)

OVERTON COUNTY HEALTH AND REHAB CENTER

Required Supplementary Information

Schedule of Overton County Health and Rehab Center's Proportionate Share of the Net Pension Asset Participation in the Public Employee Pension Plan of TCRS Last 10 Fiscal Years ending June 30 (1)*

	2014
Overton County Health and Rehab Center's proportion of the net pension asset	17.80%
Overton County Health and Rehab Center's proportionate share of the net pension asset	$ 343,520
Overton County Health and Rehab Center's covered-employee payroll	$ 2,505,610
Overton County Health and Rehab Center's proportionate share of the net pension asset as a percentage of its covered employee payroll	13.71%
Plan fiduciary net position as a percentage of the total pension liability	108.26%

***** The amounts presented were determined as of June 30 of the prior fiscal year.***

(1) ***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.***

OVERTON COUNTY HEALTH AND REHAB CENTER

Required Supplementary Information

Schedule of Overton County Health and Rehab Center's Contributions
Public Employee Pension Plan of TCRS
Last 10 Fiscal Years ending June 30 (1)

	2014	2015
Actuarially determined contribution (ADC)	$ 138,560	$ 118,909
Contributions in relation to the actuarially determined contribution	138,560	118,909
Contribution deficiency (excess)	$ -	$ -
Covered-employee payroll	$ 2,505,610	$ 2,197,958
Contributions as a percentage of covered-employee payroll	5.53%	5.41%

Notes to Schedule -

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 are:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	6 years
Asset valuation method	10-year smoothed within a 20% corridor to market value
Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5%

(1) ***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.***

INTERNAL CONTROL AND COMPLIANCE SECTION

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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
Overton County Health and Rehab Center
Livingston, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Overton County Health and Rehab Center, a component unit of Overton County, Tennessee as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Overton County Health and Rehab Center's basic financial statements, and have issued our report thereon dated October 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Overton County Health and Rehab Center'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 Overton County Health and Rehab Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Overton County Health and Rehab Center's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Overton County Health and Rehab Center'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*.

Board of Directors
Livingston, Tennessee

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.

Jobe, Hastings & Associates
Certified Public Accountants

Murfreesboro, Tennessee
October 15, 2015