

WEAKLEY COUNTY NURSING HOME

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

June 30, 2015

**WEAKLEY COUNTY NURSING HOME
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INTRODUCTORY SECTION

WEAKLEY COUNTY NURSING HOME

June 30, 2015

BOARD OF COMMISSIONERS

Larry Taylor, Chairman
Roger Donaldson, Vice-Chairman
Dale Overton
Roger VanCleave
Larry Hudson
Carmen Chandler
Donald Doster
Dennis Doster
Greg Usery

ADMINISTRATIVE STAFF

David McBride, Administrator
Bradley Davis, Assistant Administrator

FINANCIAL SECTION

Members of:

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Certified Public Accountants
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Independent Auditor's Report

Board of Commissioners
Weakley County Nursing Home
Dresden, Tennessee

Report on the Financial Statements

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

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 management's discussion and analysis on pages 4 through 7 and the schedules related to pensions on page 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015 on our consideration of the Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Weakley County Nursing Home's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

McKenzie, Tennessee
November 18, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Weakley County Nursing Home, we offer readers of the Nursing Home's financial statements this narrative overview and analysis of the financial activities of the Nursing Home for the fiscal year ended June 30, 2015.

FINANCIAL HIGHLIGHTS

- The assets of the Nursing Home exceeded its liabilities at the close of the most recent fiscal year by \$6.1 million (*net position*), which is an increase of \$1.2 million from the prior year. This increase was the result of revenues exceeding expenditures during the year by \$1 million and an adjustment due to the adoption of new pension standards that increased beginning net position by \$228 thousand.
- During the fiscal year ended June 30, 2015, the Nursing Home had income from operations of \$956,668. This is an increase of \$932,886 from the prior year's income from operations.
- The change in net position for the current year was an increase of \$980,253, compared to a decrease of \$3,058 in the prior year.
- The Nursing Home purchased capital assets of \$231,285 during the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Nursing Home's basic financial statements. The Nursing Home's basic financial statements are comprised of the following components:

1. Statement of Net Position
2. Statement of Revenues, Expenses, and Changes in Net Position
3. Statement of Cash Flows
4. Notes to Financial Statements

This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Nursing Home's finances, in a manner similar to a private-sector business.

- The Statement of Net Position presents information on all of the Nursing Home's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Nursing Home is improving or deteriorating.
- The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the Nursing Home's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected receivables, compensated absences, etc.).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes follow the basic financial statements in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of an entity's financial position. In the case of the Nursing Home, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$6.1 million at the close of the most recent fiscal year. A large portion of the Nursing Home's net position (24%) represents its investment in capital assets used to provide services to patients. Eleven percent of net position has been restricted as a result of the net pension asset reported this year. The remaining balance of net position (65%) represents unrestricted net position. Therefore, the Nursing Home appears fairly strong based on the large percentage of net position available to meet current needs.

During the current fiscal year, the Nursing Home's net position increased by \$980 thousand. Cash increased by \$760 thousand and a net pension asset of \$695 thousand was recorded as a result of adopting new pension standards. In conjunction with the new pension standards, deferred inflows and deferred outflows of resources were reported, and net position was restricted for the portion attributable to the pension asset. Details related to the new pension standards are presented in the Notes to the Financial Statements.

Condensed Statement of Net Position

	June 30,		Increase
	2015	2014	(Decrease)
Current and other assets	\$ 4,623,110	\$ 3,862,603	\$ 760,507
Restricted assets	717,204	22,494	694,710
Capital assets	1,453,014	1,369,320	83,694
Total assets	6,793,328	5,254,417	1,538,911
Deferred outflows of resources	170,157	-	170,157
Current liabilities	295,915	311,555	(15,640)
Other liabilities	21,776	22,494	(718)
Total liabilities	317,691	334,049	(16,358)
Deferred inflows of resources	517,586	-	517,586
Net position:			
Investment in capital assets	1,453,014	1,369,320	83,694
Restricted - pensions	695,428	-	695,428
Unrestricted	3,979,766	3,551,048	428,718
Total net position	\$ 6,128,208	\$ 4,920,368	\$ 1,207,840

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Revenues, Expenses, and Changes in Net Position

Revenues exceeded expenditures by \$980,253 for the current fiscal year. This is an increase of \$983,311 from last year. Revenues increased by \$104 thousand over last year, and expenses decreased by \$876 thousand.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	June 30,		Increase
	2015	2014	(Decrease)
Revenues:			
Medicaid I	\$ 3,752,939	\$ 3,888,230	\$ (135,291)
Private pay	715,246	654,950	60,296
Medicare A	1,907,022	1,654,672	252,350
Medicare B	102,559	212,590	(110,031)
Medicaid II	340,132	271,592	68,540
Other	373,200	404,825	(31,625)
Operating revenues	7,191,098	7,086,859	104,239
Operating expenses			
General and administrative	1,182,069	1,043,868	138,201
Employee benefits	359,848	873,784	(513,936)
Dietary	655,031	755,553	(100,522)
Housekeeping	191,697	203,830	(12,133)
Laundry and linen	185,968	197,270	(11,302)
Plant operation and maintenance	396,029	416,733	(20,704)
Medical and nursing	2,271,260	2,524,323	(253,063)
Recreational activities	59,804	58,453	1,351
Social services	93,615	90,359	3,256
Medicare expenses	691,518	782,794	(91,276)
Depreciation	147,591	163,674	(16,083)
Total expenses	6,234,430	7,110,641	(876,211)
Operating income	956,668	(23,782)	980,450
Non-operating revenues			
Interest	23,585	20,724	2,861
Increase (decrease) in net position	980,253	(3,058)	983,311
Net position - beginning	4,920,368	4,923,426	(3,058)
Restatement - new pension standards	227,587	-	227,587
Net position - restated	5,147,955	4,923,426	224,529
Net position - ending	\$ 6,128,208	\$ 4,920,368	\$ 1,207,840

The large decrease in employee benefits is due to decreases in health insurance premiums and the change in reporting pension expense as a result of the new pension standards that went into effect this year. Calculated pension expense under the new standards was significantly less than actual pension contributions made during the current year. The decrease in employee benefits is a result of an increase in the amount employees contribute to their employee health insurance premiums and many who were eligible for it turned it down when offered. In addition, all but three departments had lower expenses this

MANAGEMENT'S DISCUSSION AND ANALYSIS

year compared to last year. Due to a decrease in the number of residents being served, some employee positions were not left open when employee vacancies occurred.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - At the end of Fiscal Year 2015, the Nursing Home had invested \$1,453,014, net of accumulated depreciation, in a variety of capital assets. Capital asset additions for the year were \$231,285 and depreciation on capital assets was \$147,591, for a net increase of \$83,694. Additional information on the Nursing Home's capital assets can be found in Note 1 and Note 2B of this report.

The Nursing Home had no debt as of June 30, 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The census is really what limits or allows the facility's level of spending. There have been a lot of changes that have been made in the application process into the nursing home. The facility must stay abreast of changes on the State and National levels in order to safely guide the facility as it moves forward. The facility will continue to make improvements in its remodeling of the building and in upgrading areas within the facility. That includes new flooring, doors, wall texturing, cubical curtains, window treatments and replacement furniture. The job market is very tight in our area and hiring for licensed and unlicensed positions can be very challenging. Therefore, the facility will probably be offering full-time benefits to help with employee retention and lower employee turnover.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Nursing Home's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Nursing Home's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Nursing Home Administrator, Weakley County Nursing Home, P.O. Box 787, Dresden, TN 38225.

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

ASSETS

Current assets

Cash on hand and in bank	\$3,452,304
Certificates of deposit	631,835
Accounts receivable	454,318
Inventory - supplies	74,787
Prepaid insurance	<u>9,866</u>
Total current assets	4,623,110

Capital assets

Land	2,371
Land improvements	64,212
Buildings and improvements	3,115,095
Equipment	1,629,826
Vehicles	52,718
Other capital assets	<u>40,815</u>
Total capital assets	4,905,037
Less: accumulated depreciation	<u>(3,452,023)</u>
Net capital assets	1,453,014

Restricted assets

Cash on hand and in bank - patient trust fund	21,776
Net pension asset	<u>695,428</u>
Total restricted assets	<u>717,204</u>
Total assets	6,793,328

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows related to pensions	170,157
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LIABILITIES

Current liabilities

Accounts payable	148,595
Accrued salaries and wages	81,822
Employee retirement and insurance payable	15,235
Accrued vacation	<u>50,263</u>
Total current liabilities	295,915

Other liabilities

Patient trust fund	<u>21,776</u>
Total liabilities	317,691

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	<u>517,586</u>
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NET POSITION

Investment in capital assets	1,453,014
Restricted - pensions	695,428
Unrestricted	<u>3,979,766</u>
Total net position	<u>\$6,128,208</u>

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

WEAKLEY COUNTY NURSING HOME
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2015

Operating income		
Medicaid I, net of contractual		\$ 3,752,939
Private pay		715,246
Hospice, net of contractual		367,912
Medicare A, net of contractual and bad debts		1,907,022
Medicare B, net of contractual		102,559
Medicaid II, net of contractual		340,132
Respite Medicaid		2,253
Miscellaneous		<u>3,035</u>
Total operating income		7,191,098
Operating expenses		
General and administrative	1,182,069	
Employee benefits	359,848	
Dietary	655,031	
Housekeeping	191,697	
Laundry and linen	185,968	
Plant operation and maintenance	396,029	
Medical and nursing	2,271,260	
Recreational activities	59,804	
Social services	93,615	
Medicare expenses	691,518	
Depreciation	<u>147,591</u>	
Total operating expenses		<u>6,234,430</u>
Income from operations		956,668
Nonoperating income		
Interest income		<u>23,585</u>
Change in net position		980,253
Net position - beginning of year, as previously reported		4,920,368
Restatement for adoption of new pension standards		<u>227,587</u>
Net position - beginning of year, as restated		<u>5,147,955</u>
Net position - end of year		<u>\$ 6,128,208</u>

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

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

Cash flows from operating activities:	
Receipts from patient charges	\$ 7,193,127
Payments to vendors	(2,347,426)
Payments to employees and for employee benefits	<u>(3,875,465)</u>
Net cash provided by operating activities	970,236
Cash flows from capital and related financing activities:	
Purchases of equipment	(231,285)
Cash flows from investing activities:	
Interest added to certificate of deposit	(2,206)
Interest received	<u>23,585</u>
Net cash provided by investing activities	<u>21,379</u>
Net increase in cash and cash equivalents	760,330
Cash and cash equivalents - beginning of year	<u>2,691,974</u>
Cash and cash equivalents - end of year	<u>\$ 3,452,304</u>
Reconciliation of operating income to net cash provided by operating activities:	
Income from operations	\$ 956,668
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Depreciation	147,591
Bad debts written off	82,638
Deferred outflows related to pensions	(170,157)
Pension expense	49,745
Changes in operating assets and liabilities:	
Accounts receivable, net	(80,609)
Accounts payable	16,907
Nursing home tax payable	(25,217)
Accrued salaries and wages	8,145
Employee retirement and insurance payable	(9,492)
Accrued vacation pay	<u>(5,983)</u>
Total adjustments	<u>13,568</u>
Net cash provided by operating activities	<u>\$ 970,236</u>
Noncash Investing and Non-capital Financing Activities	
Pension expense	\$ 49,745
Net pension asset	695,428
Deferred inflows related to pensions	(517,586)
Restatement of beginning net position for beginning pension liability	<u>(227,587)</u>
Net effect of noncash pension activity	<u>\$ -</u>

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Weakley County Nursing Home is a reporting component of Weakley County, Tennessee, and, therefore, is included in their audit report. The board of directors of Weakley County Nursing Home is comprised of county commissioners who are appointed to be on the board. Before the issuance of any debt instruments, the Nursing Home must obtain the approval of the County Commission. The Weakley County Nursing Home is located in Dresden, Tennessee. The Nursing Home mainly serves the residents of Weakley County by rendering intermediate and skilled care to patients.

B. Measurement Focus and Basis of Accounting

The Weakley County Nursing Home is a governmental unit and uses fund accounting. The Nursing Home is an enterprise fund in that operations are accounted for in a manner similar to a private business, where the intent of the governing body is that the costs of operations (including depreciation) will be recovered through user charges. Enterprise funds are a type of proprietary fund, and, as such, are reported in accordance with generally accepted accounting principles for proprietary funds as defined by GASB. Proprietary fund types are reported using the *economic resources* measurement focus and the accrual basis of accounting. The aim of this measurement focus is to report all inflows, outflows, and balances affecting or reflecting the entity's net position. The accrual basis of accounting recognizes income as it is earned and expenses as they are incurred, whether or not cash is received or paid out at that time.

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

C. 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 asset increased by \$5,717, deferred outflows of resources increased by \$221,870, and beginning net position increased by \$227,587.

D. Assets, Liabilities and Net Position

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Nursing Home considers cash and cash equivalents to include cash on hand, cash in banks, and highly liquid investments with an original maturity of three months or less when purchased. It does not include certificates of deposit or patient trust funds.

WEAKLEY COUNTY NURSING HOME NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Inventory

Inventories, consisting of supplies held for consumption, are valued at cost, using the first-in, first-out (FIFO) method. Inventories are adjusted to physical counts at the end of each fiscal year.

Allowance for Doubtful Accounts

An allowance for doubtful accounts has not been reflected as of the balance sheet date. The direct write-off of bad debts is made at the end of each fiscal year. The direct write-off method is not in accordance with generally accepted accounting principles, but the effect on the financial statements is immaterial. For the current year, \$82,638 in bad debts were written off and recoveries of \$126,713 were collected.

Depreciation

Capital assets are recorded at historical cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Estimated useful lives for assets are as follows:

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

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets' lives are not capitalized. Typically, purchases of less than \$250 are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Compensated Absences

Employees are entitled to paid vacation and sick days depending on length of service and other factors. Only full-time employees are entitled to these benefits. The policy of the Nursing Home is to pay eligible employees up to fifteen days' worth of vacation time upon termination assuming they have fifteen days of vacation time accrued. An accrual for vacation pay has been made on the financial statements presented. However, sick pay has not been accrued since it is payable only for those who are currently employed with no benefits due upon termination of any employee.

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.

Net position flow assumption

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

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

NOTE 2 – DETAILED NOTES ON ACCOUNTS

A. Deposits and Investments

The Nursing Home’s policies limit deposits and investments to those instruments allowed by applicable state laws. State statute authorizes the Nursing Home to invest in bonds, notes, or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and the state pooled investment fund.

Custodial credit risk of deposits is the risk that in the event of a bank failure the government’s deposits may not be returned to it. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the Nursing Home’s agent in the Nursing Home’s name, or by the Federal Reserve Banks acting as third party agents. As of June 30, 2015, all bank deposits were fully collateralized or insured.

B. Changes in Capital Assets

Capital assets activity for the year ended June 30, 2015, was as follows:

Description	Balance 7/01/14	Additions	Disposals	Balance 6/30/15
Capital assets, not being depreciated				
Land	\$ 2,371	\$ -	\$ -	\$ 2,371
Capital assets, being depreciated				
Land improvements	64,212	-	-	64,212
Building	2,995,282	119,813	-	3,115,095
Equipment	1,539,370	95,100	4,644	1,629,826
Vehicles	31,818	20,900	-	52,718
Other	40,815	-	-	40,815
Total capital assets being depreciated	<u>4,671,497</u>	<u>235,813</u>	<u>4,644</u>	<u>4,902,666</u>
Less accumulated depreciation				
Land improvements	43,608	1,828	-	45,436
Building	1,929,209	67,708	-	1,996,917
Equipment	1,259,098	78,055	116	1,337,037
Vehicles	31,818	-	-	31,818
Other	40,815	-	-	40,815
Total accumulated depreciation	<u>3,304,548</u>	<u>147,591</u>	<u>116</u>	<u>3,452,023</u>
Net capital assets being depreciated	<u>1,366,949</u>	<u>88,222</u>	<u>4,528</u>	<u>1,450,643</u>
Total capital assets, net	<u>\$ 1,369,320</u>	<u>\$ 88,222</u>	<u>\$ 4,528</u>	<u>\$ 1,453,014</u>

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

NOTE 3 – OTHER INFORMATION

A. Risk Management

Weakley County Nursing Home felt it was more economically feasible to be covered under Weakley County's insurance policies for workers' compensation, property, casualty, and automobile insurance. Weakley County is covered under The Local Government Property and Casualty Fund (LGPCF). The Nursing Home pays an annual premium to the Fund for coverage under the above areas. The LGPCF has self-insured retention (SIR) of \$100,000 for each and every loss and/or claim and/or occurrence. Weakley County Nursing Home continues to carry commercial insurance for all other risks of loss, including general liability and fidelity bonding. Settled claims have not exceeded commercial insurance coverage in any of the past three years.

B. Pension Plan

Plan description. Employees of Weakley County Nursing Home, a component unit of Weakley County, Tennessee, 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 Nursing Home employees comprise 19.2 percent of the plan based on census data. Weakley County transferred to the Hybrid Pension Plan for new hires effective July 1, 2013. Employees hired after the date of transfer participate in the alternated defined benefit plan. Vested members in the alternate defined benefit plan become eligible to retire at the age of 65 with five years of service or upon such time that the member's age plus years of service total at least 90.

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.

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

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

For the year ended June 30, 2015, the Nursing Home's total payroll for all employees was \$2,987,354. Total covered payroll was \$2,202,527. Covered payroll refers to all compensation paid by the Nursing Home to active employees covered by the Plan.

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees are non-contributory. Weakley 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 Weakley County Nursing Home were \$170,157 based on a rate of 7.33 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Weakley 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. Weakley 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 Weakley County's plan. At the June 30, 2014, measurement date, Weakley County Nursing Home's proportion was 19.20 percent.

Pension Expense. For the year ended June 30, 2015, Weakley County Nursing Home recognized pension expense of \$49,745.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2015, Weakley 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	\$ -	\$ 97,768
Net difference between projected and actual earnings on pension plan investments	-	419,818
Contributions subsequent to the measurement date of June 30, 2014	170,157	<i>(not applicable)</i>
Total	\$ 170,157	\$ 517,586

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:

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

Year Ending June 30:	
2016	\$(124,508)
2017	(124,508)
2018	(124,508)
2019	(124,508)
2020	(19,554)
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
Cost of living adjustment	2.5 percent

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.

**WEAKLEY COUNTY NURSING HOME
NOTES TO FINANCIAL STATEMENTS**
June 30, 2015

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 Weakley 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 Weakley 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 Weakley 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:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Weakley County Nursing Home's proportionate share of net pension liability (asset)	<u>\$ 100,336</u>	<u>\$ (695,428)</u>	<u>\$(1,354,083)</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, Weakley County Nursing Home reported a payable of \$11,932 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2015.

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

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

	2014
Weakley County Nursing Home's proportion of the net pension asset	(19.20%)
Weakley County Nursing Home's proportionate share of the net pension asset	\$ (695,428)
Weakley County Nursing Home's covered employee payroll	\$ 2,645,429
Weakley County Nursing Home's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	(26.29%)
Plan fiduciary net position as a percentage of the total pension liability	111.51%

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

	2014	2015
Actuarially determined contributions (ADC)	\$ 301,178	\$ 170,157
Contributions in relation to the actuarially determined contribution	301,178	170,157
Contribution deficiency (excess)	\$ -	\$ -
 Weakley County Nursing Home's covered-employee payroll	 \$ 2,645,429	 \$ 2,202,527
Contributions as a percentage of Weakley County Nursing Home's covered-employee payroll	11.2%	7.33%

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

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

For the Year Ended June 30, 2015

General and administrative	
Administrator's salary	\$ 83,896
Assistant administrator's salary	53,535
Office salaries	205,499
Other compensation/longevity	30,215
Payroll taxes	25,704
Insurance	155,117
Professional temporary services - office	11,174
Accounting fees	22,694
Audit fees	20,260
Office supplies	13,390
Minor equipment	514
Equipment rental	2,670
Postage	4,142
Employee benefit expense	18,422
Resident benefit expense	1,664
Employee physicals	3,385
Outside contractors	12,177
Board member expense	8,959
Telephone	21,380
Training/seminars/conferences	3,996
Employees expense	6,205
Dues/memberships/subscriptions	11,338
Flowers and gifts	1,508
Advertising	42,446
Taxes and licenses	403,799
Professional training and education	17,121
Miscellaneous	859
Total general and administrative	<u>\$ 1,182,069</u>
Employee benefits	
Unemployment taxes	\$ 6,590
Group health insurance	303,234
Life insurance	279
Retirement	49,745
Total employee benefits	<u>\$ 359,848</u>
Dietary	
Salaries	\$ 299,162
Payroll taxes	22,377
Purchased services	11,116
Supplies	19,872
Utensils, pitchers, plates	943
Minor equipment	208
Food	268,448
Dietary supplements	32,905
Total dietary	<u>\$ 655,031</u>

See independent auditor's report.

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

For the Year Ended June 30, 2015

Housekeeping	
Salaries	\$ 154,585
Payroll taxes	11,648
Supplies	25,192
Minor equipment	272
Total housekeeping	<u>\$ 191,697</u>
Laundry and linen	
Salaries	\$ 150,945
Payroll taxes	11,407
Supplies	13,519
Linen	10,097
Total laundry and linen	<u>\$ 185,968</u>
Plant operation and maintenance	
Salaries	\$ 62,797
Payroll taxes	4,404
Minor equipment	787
Supplies	5,773
Purchased services	47,703
Maintenance and repairs	17,810
TV cable/satellite	9,840
Pest control	3,647
Electricity	82,740
Gas	57,947
Water and sewage	53,809
Waste disposal	41,944
Miscellaneous	3,841
Facility improvements	350
Vehicle maintenance	2,637
Total plant operation and maintenance	<u>\$ 396,029</u>
Medical and nursing	
Salaries - RN	\$ 96,958
Salaries - LPN	612,022
Salaries - aides, orderlies	963,851
Vacation/holiday/sick - nursing	111,331
Payroll taxes - nursing	130,858
Supplies	121,319
Nurses notes and forms	1,449
Administrative salaries	196,164
Payroll taxes - administrative	14,659
Contract services - nursing administration	1,395
Training/seminars/conferences	6,254
Medical director fees	15,000
Total medical and nursing	<u>\$ 2,271,260</u>

See independent auditor's report.

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

Recreational activities	
Salaries	\$ 48,780
Payroll taxes	3,628
Supplies	836
Special events	6,463
Dues/memberships/subscriptions	97
Total recreational activities	<u>\$ 59,804</u>
Social services	
Salaries	\$ 86,807
Payroll taxes	6,643
Supplies	165
Total social services	<u>\$ 93,615</u>
Medicare/Medicaid II expenses	
Contract - physical therapy	\$ 40,242
Contract - speech therapy	48,651
Contract - occupational therapy	23,409
Billable medical supplies	11,224
Pharmacy	153,932
Floor stock drugs and supplies	31,217
Lab - Medicare	6,640
Oxygen	4,942
X-Ray - Medicare	8,150
Contract other - physical therapy	2,069
Contract other - speech therapy	1,617
Contract other - occupational therapy	629
MCA - contract - physical therapy	146,990
MCA - contract - speech therapy	73,050
MCA - contract - occupational therapy	138,756
Total Medicare/Medicaid II expenses	<u>\$ 691,518</u>

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

Members of:

American Institute of Certified Public Accountants
AICPA Center for Public Company Audit Firms
AICPA Governmental Audit Quality Center
AICPA Employee Benefit Plan Audit Quality Center
Tennessee Society of Certified Public Accountants
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**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Commissioners
Weakley County Nursing Home

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Weakley County Nursing Home, a component unit of Weakley County, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Nursing Home's basic financial statements, and have issued our report thereon dated November 18, 2015.

Internal Control Over Financial Reporting

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

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

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

Board of Directors
Weakley County Nursing Home

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an 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

McKenzie, Tennessee
November 18, 2015

WEAKLEY COUNTY NURSING HOME
SCHEDULE OF PRIOR YEAR FINDINGS REQUIRED BY STATE OF TENNESSEE
For the Year Ended June 30, 2015

Financial Statement Findings

There were no prior findings reported.

Federal Award Findings and Questioned Costs

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