

OVERTON COUNTY NURSING HOME

LIVINGSTON, TENNESSEE

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2012

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INTRODUCTORY SECTION

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Board of Directors and Administrator (unaudited)

June 30, 2012

Billie Phipps, Chairman

Frank Martin, Vice Chairman

Donna Savage

Randall Boswell

Darwin Clark

Jennifer Bouldin, Administrator

FINANCIAL SECTION



JOB, HASTINGS & ASSOCIATES

Certified Public Accountants

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Donna K. Hastings, CPA, CSEP

James R. Jobe, CPA

Joel H. Jobe (1944 – 2006)

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Overton County Nursing Home
Livingston, Tennessee

We have audited the accompanying statement of net assets of Overton County Nursing Home, a component unit of Overton County, Tennessee as of June 30, 2012, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of Overton County Nursing Home's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Overton County Nursing Home, a component unit of Overton County, Tennessee, as of June 30, 2012, and the respective changes in financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2012 on our consideration of Overton County Nursing Home's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has not presented the management's discussion and analysis that governmental 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.

Board of Directors
Overton County Nursing Home

Our audit was conducted for the purpose of forming an opinion on the financial statements of Overton County Nursing Home. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. It 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.

Jobe, Hastings & Associates
Certified Public Accountants

Murfreesboro, Tennessee
October 4, 2012

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Statement of Net Assets

June 30, 2012

<u>ASSETS</u>	
Current Assets-	
Cash	\$ 1,802,065
Cash - restricted	4,125,556
Certificates of deposit	2,417,805
Cash - patients' funds	27,384
Patient accounts receivable, net of allowance of \$85,000	897,914
Accrued interest receivable	14,513
Estimated third-party payor settlements	22,459
Prepaid expense	1,000
	<u>9,308,696</u>
	TOTAL CURRENT ASSETS
Property and Equipment-	
Land improvements	\$ 102,708
Building and improvements	3,073,205
Transportation equipment	70,369
Equipment	1,211,267
	<u>4,457,549</u>
Less: Accumulated depreciation	2,988,724
	<u>1,468,825</u>
Land	115,000
Construction in progress	137,198
	<u>1,721,023</u>
Other Asset -	
Deferred loan costs, net	25,032
	<u>1,746,055</u>
	TOTAL NONCURRENT ASSETS
	TOTAL ASSETS
	<u>\$ 11,054,751</u>
<u>LIABILITIES</u>	
Current Liabilities-	
Accounts payable - trade	\$ 247,487
Accrued salaries and wages payable	71,835
Accrued vacation	113,241
Accrued payroll taxes and employee withholdings	27,212
Accrued interest payable	14,330
Patients' funds held in trust	27,384
Current portion of capitalized lease obligation	5,140
Current portion of note payable to primary government	160,000
	<u>666,629</u>
	TOTAL CURRENT LIABILITIES
Long-term Liabilities -	
Capitalized lease obligation, less current portion	\$ 464
Note payable to primary government, less current portion	3,990,000
	<u>3,990,464</u>
	TOTAL LONG-TERM LIABILITIES
	TOTAL LIABILITIES
	<u>\$ 4,657,093</u>
<u>NET ASSETS</u>	
Net Assets -	
Invested in capital assets, net of related debt	\$ 1,715,419
Unrestricted net assets	4,682,239
	<u>6,397,658</u>
	TOTAL NET ASSETS
	TOTAL LIABILITIES AND NET ASSETS
	<u>\$ 11,054,751</u>

See notes to financial statements.

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Statement of Revenues, Expenses and Changes in Fund Net Assets

For the Year Ended June 30, 2012

Operating Revenues -		
Net patient service revenue	\$	8,615,435
Other revenue		34,484
	\$	<u>8,649,919</u>
Operating Expenses -		
Medical and nursing services	\$	2,826,538
Dietary services		1,110,782
Therapy and ancillary services		902,988
Employee benefits		865,989
Administrative and general		555,145
Plant operation and maintenance		471,688
Bed license fees		356,000
Housekeeping services		244,969
Laundry and linen		191,960
Depreciation		158,181
Recreational activities		113,015
Medical records		60,066
Social services		31,167
Other operating expenses		28,520
	\$	<u>7,917,008</u>
	OPERATING INCOME	\$ <u>732,911</u>
Nonoperating Revenues (Expenses) -		
Interest income	\$	19,091
Contribution income		2,299
Loss on disposal of capital assets		(1,279)
Interest expense		(1,220)
	\$	<u>18,891</u>
	CHANGE IN NET ASSETS	\$ 751,802
Net Assets at Beginning of Year		<u>5,645,856</u>
	NET ASSETS AT END OF YEAR	\$ <u><u>6,397,658</u></u>

See notes to financial statements.

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Statement of Cash Flows

For the Year Ended June 30, 2012

Cash Flows from Operating Activities -		
Received from residents and third-party payors	\$ 8,918,334	
Received from others	34,484	
Paid to suppliers for goods and services	(3,899,527)	
Paid to employees for services	<u>(3,946,051)</u>	
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>1,107,240</u>	
Cash Flows from Capital and Related Financing Activities -		
Purchase of property and equipment	\$ (192,305)	
Disbursements for construction in progress	(122,868)	
Payments on capitalized lease obligation	(4,421)	
Interest paid on capitalized lease obligation	(1,220)	
Proceeds from note payable to primary government	4,150,000	
Payment of deferred loan costs, net	<u>(25,032)</u>	
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ <u>3,804,154</u>	
Cash Flows from Investing Activities -		
Interest earned	\$ 2,722	
Investment in certificates of deposit	<u>(1,000,000)</u>	
NET CASH USED BY INVESTING ACTIVITIES	\$ <u>(997,278)</u>	
	NET INCREASE IN CASH	\$ 3,914,116
Cash, July 1, 2011		<u>2,013,505</u>
	CASH, JUNE 30, 2012	\$ <u><u>5,927,621</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities -		
Operating income	\$ 732,911	
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation	158,181	
Provision for bad debts	61,421	
Changes in assets and liabilities -		
Decrease in patient accounts receivable	117,079	
Decrease in estimated third-party payor settlements	124,399	
Increase in accounts payable-trade	24,385	
Decrease in accrued salaries and wages payable	(103,395)	
Decrease in accrued vacation	(1,655)	
Decrease in accrued payroll taxes and employee withholdings	<u>(6,086)</u>	
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>1,107,240</u></u>	
Non Cash Investing, Capital, and Financing Activities -		
Interest earnings added to certificate of deposit	\$ 14,038	
Contribution of a fixed asset's fair value over purchase price	2,299	
Accrued construction period interest included in construction in progress	<u>14,330</u>	
	\$ <u><u>30,667</u></u>	
Reconciliation to Cash and Cash Equivalents		
Presented in Statement of Net Assets -		
Cash	\$ 1,802,065	
Cash - restricted	<u>4,125,556</u>	
	CASH, JUNE 30, 2012	\$ <u><u>5,927,621</u></u>

See notes to financial statements.

VERTON COUNTY NURSING HOME

Livingston, Tennessee

Notes to Financial Statements

June 30, 2012

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Organization - Overton County Nursing Home 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 Nursing Home 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 - As specified and described by Standard 14 of the Governmental Accounting Standards Board (GASB); the Nursing Home is a component unit of the primary government of Overton County, Tennessee. The Nursing Home reports its financial information separately from Overton County; however, the County in its financial report also presents the Nursing Home's financial information.

Legally, the Nursing Home 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, the Nursing Home cannot be a primary government. Instead it qualifies as a component unit according to the directives of GASB.

GASB 14 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 Nursing Home may not issue debt without Overton County, Tennessee's approval and the County remains contingently liable for all debt obligations. Because the Nursing Home 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, 2012, there was a note payable between Overton County and the Nursing Home. This is described in detail in Note M. The Nursing Home 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. The Nursing Home has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting*, to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

As a component unit of Overton County, the accounts of the Nursing Home 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 Nursing Home's assets, liabilities, net assets, 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).

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Notes to Financial Statements (continued)

June 30, 2012

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting and financial reporting treatment applied to the Nursing Home is determined by its measurement focus. The transactions of the Nursing Home 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 assets (i.e. total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Cash Flow - Cash and Cash Equivalents - Overton County Nursing Home presents its cash flow statement using the direct method. For purposes of cash flow presentation, the Nursing Home 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, 2012, 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 Nursing Home expects to collect from outstanding balances. The Nursing Home 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 \$85,000 at June 30, 2012. 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 \$14,330 of interest capitalized during the year ended June 30, 2012. 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 Nursing Home 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 Nursing Home 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 - Nursing Home employees earn vacation by prescribed formula based on length of service. The Nursing Home accrues vacation pay when earned.

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.

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Notes to Financial Statements (continued)

June 30, 2012

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes – The Internal Revenue Service has determined that the Nursing Home 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. However, see Note K for details regarding this exemption.

Operating Revenues and Expenses – The Nursing Home’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 4, 2012, the date the financial statements were available to be issued.

Note B – CASH AND CERTIFICATES OF DEPOSIT

The Nursing Home 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, 2012, 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, 2012, the carrying amount of cash deposits, including patient funds, was \$5,954,805 and the bank balance was \$6,047,936. At June 30, 2012, the carrying amount of the certificate of deposit was \$2,417,805 and the bank balance was \$2,417,805. At June 30, 2012, the entire bank balance was covered by federal depository insurance, or pledged securities held as collateral in another institution in the name of the Nursing Home.

Note C - PATIENT FUNDS HELD IN TRUST

At June 30, 2012, the Nursing Home held funds in the amount of \$27,384 on behalf of the residents.

The Nursing Home 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 Nursing Home 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 Nursing Home 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	43.89 %
Medicare	28.20 %
Insurance	17.10 %
Private	10.81 %

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Notes to Financial Statements (continued)

June 30, 2012

Note E – CAPITAL ASSETS

Capital assets are summarized as follows:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Capital assets, not being depreciated -				
Land	\$ 56,500	\$ 58,500		\$ 115,000
Construction in progress		137,198		137,198
Subtotal	<u>\$ 56,500</u>	<u>\$ 195,698</u>	<u>\$ 0</u>	<u>\$ 252,198</u>
Capital assets, being depreciated -				
Land improvements	\$ 102,708			\$ 102,708
Building and improvements	3,000,800	\$ 84,583	\$ 12,178	3,073,205
Transportation equipment	49,148	21,221		70,369
Equipment	1,227,075	30,300	46,108	1,211,267
Subtotal	<u>\$ 4,379,731</u>	<u>\$ 136,104</u>	<u>\$ 58,286</u>	<u>\$ 4,457,549</u>
Less accumulated depreciation -				
Land improvements	\$ (38,212)	\$ (5,457)		\$ (43,669)
Building and improvements	(1,825,426)	(96,276)	\$ 10,899	(1,910,803)
Transportation equipment	(29,919)	(10,164)		(40,083)
Equipment	(993,994)	(46,283)	46,108	(994,169)
Subtotal	<u>\$ (2,887,551)</u>	<u>\$ (158,180)</u>	<u>\$ 57,007</u>	<u>\$ (2,988,724)</u>
Capital assets, being depreciated net	<u>\$ 1,492,180</u>	<u>\$ (22,076)</u>	<u>\$ 1,279</u>	<u>\$ 1,468,825</u>
Total capital assets, net	<u>\$ 1,548,680</u>	<u>\$ 173,622</u>	<u>\$ 1,279</u>	<u>\$ 1,721,023</u>

Note F - PENSION PLAN

Plan Description - Employees of Overton County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The retirement plan for Overton County Nursing Home is included in the total retirement program for Overton County. Therefore, separate retirement information for the Nursing Home is not available. Details relative to the funding status and progress, actuarially determined contribution requirements and contribution made, and trend information regarding the retirement plan can be found in the Comprehensive Annual Financial Report for Overton County. Total contributions to the plan by the Nursing Home for the year ended June 30, 2012 amounted to \$141,889.

The TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Overton County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body. Overton County requires employees to contribute 5.0 percent of earnable compensation and the County is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2012 was 5.46% of annual covered payroll. The contribution requirement of plan

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Notes to Financial Statements (continued)

June 30, 2012

Note F - PENSION PLAN (continued)

members is set by state statute. The contribution requirement for Overton County is established and may be amended by the TCRS Board of Trustees.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

Note G - RISK MANAGEMENT

Risks related to the operation of the nursing home 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 Nursing Home 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 Nursing Home 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 – CAPITAL LEASE OBLIGATION

The Nursing Home entered into a capital lease agreement for the purchase of equipment during the year ended June 30, 2009. The lease term expires in July 2013. The asset and liability were recorded at the fair value of the asset. The asset was capitalized in the amount of \$19,695 and accumulated amortization related to this asset was \$5,252 at June 30, 2012. This amortization expense of \$1,313 was included in depreciation expense. The lease is payable to Marlin Leasing Corporation and is secured by the equipment purchased. Payments are \$470 per month, including principal and interest at 15.151% imputed fixed annual rate. The future minimum lease payments due under the capital lease are as follows:

Year Ending June 30	Future Minimum Lease Payments	Less Amount Representing Interest	Principal Portion
2013	\$ 5,642	\$ 502	\$ 5,140
2014	470	6	464
	<u>\$ 6,112</u>	<u>\$ 508</u>	<u>\$ 5,604</u>

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Notes to Financial Statements (continued)

June 30, 2012

Note J – CAPITAL LEASE OBLIGATION (continued)

Activity related to the capital lease obligation for the year ended June 30, 2012, was as follows:

Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
\$ 10,025	\$	\$ 4,421	\$ 5,604	\$ 5,140

Note K – CONTINGENCIES

The Nursing Home received an Internal Revenue Service (IRS) notice dated July 18, 2011 stating its tax-exempt status under Internal Revenue Code Section 501(c)(3) had been revoked effective November 15, 2010. The IRS automatically sent the revocation notices to any entity which had not filed form 990, Return of Organization Exempt from Income Tax, in any of the prior three years.

Internal Revenue Procedure 95-48 states that an affiliate of a governmental unit that is exempt from federal income tax under section 501(a) of the Internal Revenue Code is also exempt from filing the annual form 990. Since Overton County Nursing Home meets the criteria of an affiliate of a governmental unit as defined in Revenue Procedure 95-48, management believes that the IRS revoked the Nursing Home's tax-exempt status in error. Correspondence has been sent to the IRS to explain the position that the tax-exempt status should not have been revoked. The IRS has acknowledged receipt of the correspondence but has not yet confirmed its agreement. Management expects the IRS to accept this position and reinstate the Nursing Home's tax-exempt status under 501(c)(3) retroactive from the date it was revoked.

Note L – CASH - RESTRICTED

Restricted cash is in a separate cash account that was created during the year with the net proceeds from the General Obligation Bonds, Series 2012, (the "Bonds") issued by Overton County, Tennessee, as further explained in Note M 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 M 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 the restricted cash account at June 30, 2012 was \$4,125,556.

Note M – 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 nursing home 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 Nursing Home to repay the County bonds from revenues from the Nursing Home. Therefore, the Nursing Home has recorded a note payable to the primary government (the "County") in the exact amount of the balance of the bonds at June 30, 2012. The County has recorded a liability for the bonds on the County's books with a corresponding amount due from the Nursing Home. The Nursing Home plans to repay 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%. Issuance and other costs related to the bonds as well as the bond premium have been netted and recorded on the books of the Nursing Home as "deferred loan costs" in the amount of \$25,032. These costs will be amortized over the life of the bonds using the straight line method. The net proceeds of the bonds were deposited into a separate cash account of the Nursing Home known as the "Construction Fund" as required by the Bond resolution.

OVERTON COUNTY NURSING HOME

Livingston, Tennessee

Notes to Financial Statements (continued)

June 30, 2012

Note M – NOTE PAYABLE TO PRIMARY GOVERNMENT (continued)

The annual debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 160,000	\$ 89,987
2014	160,000	99,006
2015	165,000	95,806
2016	165,000	92,506
2017	165,000	89,206
2018-2022	885,000	394,605
2023-2027	1,005,000	291,681
2028-2032	1,185,000	148,701
2033	260,000	8,125
	<u>\$ 4,150,000</u>	<u>\$ 1,309,623</u>

Activity related to the note payable for the year ended June 30, 2012, was as follows:

<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
\$ 0	\$ 4,150,000	\$	\$ 4,150,000	\$ 160,000

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 Nursing Home
Livingston, Tennessee

We have audited the financial statements of Overton County Nursing Home, a component unit of Overton County, Tennessee, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 4, 2012. 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.

Internal Control over Financial Reporting

Management of Overton County Nursing Home is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Overton County Nursing Home's internal control over financial reporting as a basis for designing our auditing procedures 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 Nursing Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Overton County Nursing Home's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting, that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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. We consider a deficiency described in the accompanying schedule of findings and responses to be a material weakness. (2012-3)

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. We consider certain deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies. (2012-1, 2012-2)

Board of Directors
Overton County Nursing Home

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Overton County Nursing Home's financial statements are free of 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*.

We noted certain other matters that we reported to management of Overton County Nursing Home in a separate letter dated October 4, 2012.

Overton County Nursing Home's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Overton County Nursing Home's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors of Overton County Nursing Home, management, state and federal audit agencies, others within the entity, and Overton County, Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Jobe, Hastings & Associates

Certified Public Accountants

Murfreesboro, Tennessee
October 4, 2012

OVERTON COUNTY NURSING HOME

Schedule of Findings and Responses

Year Ended June 30, 2012

FINDING – FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCY

2012-1. Authorization for purchases.

Condition: The Center's policy for the authorization of purchases is not being consistently applied. The Center requires signed purchase requisitions for all purchases except for monthly recurring charges as well as the use of a purchase order. The purchase requisitions are to be approved by the controller or the administrator prior to the purchase. Several invoices did not have the approved purchase requisition and purchase order attached.

Criteria: The Center's policy for the authorization of purchases should be consistently applied.

Effect: Unauthorized purchases could occur if the Center's authorization policy is not followed or enforced.

Recommendation: The Center should communicate to all department heads or purchasing agent the policy of the Center regarding the authorization for purchases of goods or services. The accounts payable clerk should verify that the purchase requisition and purchase order are attached to the invoice authorizing the purchase.

Response: All department heads and purchasing agents have been in-serviced regarding the proper procedure involved when making purchases for Overton County Nursing Home. The department heads or purchasing agents understand that signed purchase requisitions as well as signed purchase orders are required prior to purchase. The purchase requisitions must be approved by the controller or administrator. The accounts payable clerk will verify that the purchase requisition and purchase order are attached to the invoice authorizing the purchase.

2012-2. Documentation for expenditures particularly checks written for petty cash

Condition: Some checks written for petty cash for resident activities or employee relations expenditures were not properly documented. Furthermore, if this cash was given to a management level employee to spend on behalf of the residents or for employee relations expenditures, no written documentation was maintained to document who the cash was given to and for what purpose.

Criteria: Documentation should be maintained for all expenditures, particularly in the case of checks for petty cash which is more susceptible to misappropriation.

Effect: Lack of proper documentation for some expenditures.

Recommendation: The Center should require outside documentation be maintained for all expenditures especially for those for petty cash. All cash given to a recipient should be receipted and any unreturned cash should be documented by a third party invoice. Explanations for the business purpose of the expenditure should also be included on the documentation.

Response: Outside documentation will be maintained for all expenditures, especially petty cash expenditures. All cash disbursed will be receipted and any unreturned cash will be documented by a third party invoice. Explanations for the business purpose of the expenditure will be included on the documentation.

OVERTON COUNTY NURSING HOME

Schedule of Findings and Responses (continued)

Year Ended June 30, 2012

FINDING – FINANCIAL STATEMENTS AUDIT (CONTINUED)

MATERIAL WEAKNESS

2012-3. Reconciliation of employee deductions

Condition: An employee had payroll deductions for a dependent life insurance policy on their spouse from 2008 to 2011 which were never remitted to the appropriate insurance company.

Criteria: Any deductions from an employee's wages for benefits should be remitted timely to the appropriate vendor on behalf of the employee.

Effect: In the current year, additional costs were incurred by the Center when the employee's spouse died and it was determined that the spouse was not covered by the life insurance for which the deductions had been made. The Center incurred these costs on behalf of the employee to correct this error.

Recommendation: Reconciliations of all employee deductions should be made on a monthly basis to detailed insurance invoices outlining participants covered.

Response: Reconciliation of all employee deductions will be made on a monthly basis to detailed insurance invoices which outline the participants covered.