

FOWLER HOSPITAL DISTRICT
d/b/a
FOWLER RESIDENTIAL CARE
Fowler, Kansas

December 31, 2012

OFFICERS AND DIRECTORS

Jul Blattner
Bill Harris
Shelby Huslig
Lydia Podrebarac
Delilah Copenhavin

Chairman
Vice-Chairman
Secretary
Treasurer
Director

* * *

Susan Phipps

Administrator

* * *

Examination by
James R. Northcutt
Certified Public Accountant
Wichita, Kansas

FOWLER HOSPITAL DISTRICT
d/b/a
FOWLER RESIDENTIAL CARE
Fowler, Kansas

December 31, 2012

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JAMES R. NORTHCUTT

Certified Public Accountant

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Independent Auditor's Report

The Board of Directors
Fowler Hospital District d/b/a
Fowler Residential Care
Fowler, Kansas

Report on the Financial Statements

I have audited the accompanying general purpose financial statements of Fowler Hospital District, d/b/a Fowler Residential Care, which comprise the balance sheet as of December 31, 2012, and the related statements of Revenue, Expenses, and Changes in Retained Earnings, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the Kansas Municipal Audit and Accounting Guide. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 District'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 District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Fowler Hospital District, d/b/a Fowler Residential Care, as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The Schedule of Expenses on page 10 and the Schedule of Changes in Long Term Debt on page 11 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



James R. Northcutt

Wichita, Kansas

September 5, 2013

FOWLER HOSPITAL DISTRICT
d/b/a
FOWLER RESIDENTIAL CARE
Fowler, Kansas

BALANCE SHEET - PROPRIETARY FUND TYPE
ENTERPRISE FUND
December 31, 2012

Exhibit "A"

ASSETSCurrent Assets

Cash	\$ 230,889.56	
Accounts receivable - residents	51,746.90	
Less: allowance for doubtful accounts	(1,200.00)	
Tax levy receivable	305,712.00	
Other receivables and prepaid expenses	<u>9,876.85</u>	
Total current assets		\$597,025.31

Property and Equipment

Cost	\$1,539,528.05	
Less: accumulated depreciation	<u>1,290,217.97</u>	
Net property and equipment		249,310.08

Other Assets

Assets whose use is limited		
Asset replacement funds		<u>89,875.80</u>

Total Assets		<u>\$936,211.19</u>
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LIABILITIES AND RETAINED EARNINGSCurrent Liabilities

Accounts payable	\$ 41,388.13	
Taxes and withholding payable	3,653.18	
Provider bed tax assessment	1,500.00	
Salaries and wages payable	20,654.86	
Accrued compensated absences	20,633.03	
Deferred tax levy	<u>305,712.00</u>	
Total current liabilities		\$393,541.20

Retained Earnings

Reserved for asset replacement	\$ 89,875.80	
Unreserved	<u>452,794.19</u>	
Total retained earnings		<u>542,669.99</u>

Total Liabilities and Retained Earnings		<u>\$936,211.19</u>
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The accompanying notes to financial statements
are an integral part of these statements.

FOWLER HOSPITAL DISTRICT
d/b/a
FOWLER RESIDENTIAL CARE
Fowler, Kansas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS - PROPRIETARY FUND TYPE
ENTERPRISE FUND

Exhibit "B"

For the Year Ended December 31, 2012

Operating Revenue

Routine care - private pay	\$ 617,085.94	
Routine care - Medicaid	442,156.69	
Routine care - Medicare	56,381.52	
Personal services	13,345.49	
Meals	15,318.13	
Other	<u>15,738.63</u>	
Total operating revenues		\$1,160,026.40

Operating Expenses

Personnel	\$1,068,173.94	
Food	61,216.48	
Contracted services	109,485.71	
Consumable supplies	76,624.43	
Depreciation	42,196.44	
Other	<u>123,355.26</u>	
Total operating expenses		<u>1,481,052.26</u>

Net income(loss) from operations \$ (321,025.86)

Non-operating Revenue

Tax revenue	\$ 330,270.54	
Contributions	2,786.42	
Interest	<u>2,055.96</u>	
Total non-operating revenue		<u>335,112.92</u>

Net income \$ 14,087.06

Retained earnings - beginning of year 528,582.93

Retained Earnings - End of Year \$ 542,669.99

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

FOWLER HOSPITAL DISTRICT
d/b/a
FOWLER RESIDENTIAL CARE
Fowler, Kansas

STATEMENT OF CASH FLOWS, PROPRIETARY FUND TYPE
ENTERPRISE FUND

Exhibit "C"

For the Year Ended December 31, 2012

Cash Flows From Operating Activities

Cash received - residents and third party payors	\$1,160,478.56	
Cash paid to suppliers and employees	(1,420,919.44)	
Tax revenue	330,270.54	
Contributions	2,786.42	
Interest received	2,055.96	
Interest paid	<u>(2,105.00)</u>	
Cash provided by operating activities		\$ 72,567.04

Cash Flows From Investing Activities

Purchase of property and equipment	\$ (23,555.92)	
Change in bond retirement account	4,633.35	
Change in asset retirement accounts	<u>36,278.81</u>	
Cash provided by investing activities		17,356.24

Cash Flows From Financing Activities

Principal payment on bond obligation		<u>(85,000.00)</u>
Net increase in cash		\$ 4,923.28
Cash - beginning of year		<u>225,966.28</u>
Cash - End of Year		<u>\$ 230,889.56</u>

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Net income	\$ 14,087.06
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	42,196.44
Amortization of bond costs	970.00
Change in receivables/prepaid exp.	333.12
Change in payables	<u>14,980.42</u>

Cash Provided By Operating Activities \$ 72,567.04

Supplemental Schedule of Non-Cash Investing and Financing Activities

None

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

FOWLER HOSPITAL DISTRICT
d/b/a
FOWLER RESIDENTIAL CARE
Fowler, Kansas

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. Summary of Significant Accounting Policies

Organization

The District owns and operates an intermediate care nursing home in Fowler, Kansas. The financial statements of the District present financial information of the District as a whole by including all district funds.

The Fowler Hospital District is a municipal corporation governed by an elected five-member board of directors. These financial statements include all funds included in the District's legally adopted budget. The District has no component units.

Cash

The District considers all highly liquid debt instruments purchases with a maturity of three months or less to be cash.

Accounts Receivable

The organization reports resident accounts receivable at net realizable value from third-party payors and others. As a service to residents, the organization bills third party payors directly and bills the resident when the resident's liability is determined. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Allowance for Bad Debts

The organization uses the allowance method for recording bad debts. The allowance is maintained using management's estimate of the collectability of resident balances.

Property and Equipment

Property and equipment are recorded at cost. When individual items are sold or disposed of, the related cost and accumulated depreciation are removed and the resulting gain or loss is included in the results of operations. The straight line method is used in computing depreciation based on the useful lives of the individual assets. Major repairs are capitalized, other maintenance and repair items are expensed as incurred.

Compensated Absences

The District records a liability for compensated absences based on unpaid vacation hours accrued.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, The District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989 and only those pronouncements issued after November 30, 1989 that are applicable to commercial enterprises. The District uses the proprietary fund method of accounting where revenue and expenses are recognized on the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS - CONT.

1. Summary of Significant Accounting Policies-cont.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

Revenue Recognition

Revenues are recorded at the estimated net realizable value. Revenue from third-party payers is subject to audit and retroactive adjustment. Provisions for estimated third-party settlements are provided in the period the related services are rendered. Differences between the estimated amounts and final settlements are reported in the year of settlement.

Pension Plan

Substantially all full-time employees of the District are members of the State of Kansas Public Employees' Retirement System, which is a multi-employer state-wide pension plan. The District's policy is to fund all pensions costs accrued.

Budgetary Control

Kansas statutes require that an annual operating budget be legally adopted for enterprise funds. Adoption of the final budget is required before August 25th. In order for the governing body to increase the originally adopted budget, a public hearing must be held. There was no budget amendment for the year ended December 31, 2012. All legal operating budgets are prepared using the modified accrual basis of accounting.

Property Tax Revenue

Property taxes levied during the current year are a revenue source to be used to finance the budget of the following year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the county. Property owners have the option of paying one-half or the full amount of taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the following year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the following year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the following year. At December 31, such taxes are a lien on the property and are recorded as taxes receivable with a corresponding amount recorded as deferred revenue on the balance sheet.

2. Compliance With Kansas Law

Kansas law requires that the District legally adopt a fixed budget. Actual expenditures compared to budgeted expenditures for the year ended December 31, 2012 are as follows:

Actual	\$1,531,580.36
Budgeted	<u>1,861,710.00</u>
Favorable Variance	<u>\$ 330,129.64</u>

NOTES TO FINANCIAL STATEMENTS - CONT.

3. Deposits and Investments

Deposits - At year-end the carrying amount of the District's deposits, including certificates of deposit, was \$320,762.91. The bank balance was \$341,397.90. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$250,000.00 was covered by FDIC insurance and \$250,000.00 was available to be collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the District's name. The third-party banks holding the pledged securities are independent of the pledging banks. The pledged securities are held under tri-party custodial agreements signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

Investments - Kansas statutes authorize the District to invest in U.S. Treasury bills and notes, repurchase agreements, and the State Municipal Investment Pool. The District had no such investments at December 31, 2012.

4. Property and Equipment

A summary of property and equipment is as follows:

Buildings and improvements	\$1,163,985.41
Furnishings and equipment	348,315.83
Land	8,816.10
Land improvements	<u>18,410.71</u>
Total Property and Equipment	<u>\$1,539,528.05</u>

Depreciation expense for the year ended December 31, 2012 was \$42,196.44.

5. Bonds Payable

General Obligation Bonds - Series 1998 Interest rate variable from 5.0% to 6.0%.

Balance - beginning of year	\$ 85,000.00
Principal payments	<u>(85,000.00)</u>
Balance - End of year	<u>\$ 0.00</u>

General Obligation Bonds - Series 1998 proceeds were used to pay the costs to refurbish, improve, and equip the existing facility. The bonds are to be redeemed in varying amounts with final payment due September 1, 2013. Bonds maturing in the years 2005 and thereafter may be called for redemption and payment prior to their stated maturity on September 1 and thereafter as a whole at any time or in part on any interest payment date, at the redemption price of par plus accrued interest to the date of redemption. The Board of Directors of the District are to annually make proper provision for the payment of principal and interest of the general obligation bonds by a tax levy.

Bond issuance costs of \$8,736.40 related to the 1998 issue have been capitalized and are being amortized over the life of the bonds. Amortization expense recognized for these costs for the year ended December 31, 2012 was \$970.00.

On March 1, 2012, the District exercised its option to redeem the balance of the bond issue of \$45,000.00 which would have been due to be redeemed September 1, 2013. The balance of the deferred bond costs were then charged to current expense.

NOTES TO FINANCIAL STATEMENTS - CONT.

5. Bonds Payable - continued

Interest expense for the year ended December 31, 2012 was \$701.66, none of which was capitalized.

6. Third Party Reimbursement

The District receives reimbursement from the Kansas Department for Aging and Disability Services (Medicaid) and Medicare for residents who meet certain guidelines. The reimbursement rates are based upon cost reports and other factors and may vary during the year. A significant reduction in the level of this support, if it were to occur, may have a substantial effect of the District's activities.

7. Retirement Plan

The District participates in a defined benefit retirement plan of the Kansas Public Employees Retirement System (KPERS). KPERS provides retirement benefits, life insurance, disability benefits, and death benefits for covered participants. The Plan, which covers substantially all of the District's eligible employees, is funded by employee and employer contributions and may be terminated at the option of the District. The employer rate established by statute for January 1, 2012 to December 31, 2012 was 7.34%. Retirement expense for the year ended December 31, 2012 was \$62,193.17 which is equal to the required contributions for the year.

In addition, the District sponsors a 403(b) salary deferred plan. Elective employee contributions are allowed to this plan.

8. Assets Whose Use Is Limited

Assets designated by the board of directors are as follows:

Reserved for asset replacement

Certificates of deposit \$89,875.80

9. Concentrations of Credit Risk

The District operates a nursing home for residents in or around the City of Fowler, Kansas. The District grants credit to residents for payment of resident fees. Revenue from the State of Kansas Medicaid program accounted for approximately 40% of the District's total operating revenue.

10. Fair Values of Financial Instruments

The District has no financial instruments other than cash and certificates of deposit.

11. Evaluation of Subsequent Events

The organization has evaluated subsequent events through July 30, 2013 which were available to be issued August 15, 2013.

FOWLER HOSPITAL DISTRICT
d/b/a
FOWLER RESIDENTIAL CARE
Fowler, Kansas

SCHEDULE OF EXPENSES - PROPRIETARY FUND TYPE
ENTERPRISE FUND
For the Year Ended December 31, 2012

Schedule "1"

<u>Personnel</u>		
Salaries and wages	\$859,945.71	
Fringe benefits and taxes	<u>208,228.23</u>	
Total personnel		\$1,068,173.94
<u>Food</u>		
		61,216.48
<u>Contracted Services</u>		
Health services	\$ 69,564.00	
Health consultants	9,553.35	
Financial consultant	20,705.00	
Other professional fees	<u>9,663.36</u>	
Total contractual		109,485.71
<u>Consumable Supplies</u>		
		76,624.43
<u>Depreciation</u>		
		42,196.44
<u>Other Costs</u>		
Training	\$ 6,139.28	
Travel	2,649.65	
Minor equipment	5,745.79	
Lawn care/trash	1,591.95	
Utilities	51,918.77	
Advertising	1,684.46	
Resident expenses	222.80	
Dues/subscriptions	8,464.53	
Telephone	5,171.90	
Repairs and maintenance	10,811.96	
Insurance	23,418.92	
Background checks	256.08	
Provider bed tax assessment	3,607.51	
Amortization of bond costs	970.00	
Interest - bonds	<u>701.66</u>	
Total other costs		<u>123,355.26</u>
Total Expenses		<u>\$1,481,052.26</u>

See independent auditor's report.

FOWLER HOSPITAL DISTRICT
d/b/a
FOWLER RESIDENTIAL CARE
Fowler, Kansas

SCHEDULE OF CHANGES IN LONG-TERM DEBT
ENTERPRISE FUND

Schedule "2"

For the Year Ended December 31, 2012

General Obligation Revenue Bonds - Series 1998	Beginning	Additions	Repayments	Ending
	Balance			Balance
	\$ 85,000.00	\$ 0.00	\$ 85,000.00	\$ 0.00

See independent auditor's report.