

RICE COUNTY HOSPITAL DISTRICT NO. 2

d/b/a

SANDSTONE HEIGHTS NURSING HOME

Little River, Kansas

December 31, 2012

OFFICERS AND DIRECTORS

Edward Case
Randall Olander
Dalene Teeters
Kay Howie
Doug Peters

Chairman
Vice-Chairman
Secretary
Director
Director

* * *

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

RICE COUNTY HOSPITAL DISTRICT NO. 2
d/b/a
SANDSTONE HEIGHTS NURSING HOME
Little River, Kansas

December 31, 2012

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JAMES R. NORTHCUTT

Certified Public Accountant

1337 N. Meridian, Suite 7

Wichita, KS 67203

(316) 267-1898

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Independent Auditor's Report

The Board of Directors
Rice County Hospital District No. 2 d/b/a
Sandstone Heights Nursing Home
Little River, Kansas

Report on the Financial Statements

I have audited the accompanying general purpose financial statements of Rice County Hospital District No. 2, d/b/a Sandstone Heights Nursing Home, 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 Rice County Hospital District No. 2, d/b/a Sandstone Heights Nursing Home, 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 9 is presented for purposes of additional analysis and is 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

June 13, 2013

RICE COUNTY HOSPITAL DISTRICT NO. 2
d/b/a
SANDSTONE HEIGHTS NURSING HOME
Little River, Kansas

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

Exhibit "A"

ASSETSCurrent Assets

Cash	\$ 489,906.86	
Short-term investments	140,000.00	
Accounts receivable - residents	183,568.34	
Less: allowance for doubtful accounts	(39,265.84)	
Tax levy receivable	403,078.00	
Other receivables and prepaid expenses	<u>35,577.72</u>	
Total current assets		\$1,212,865.08

Property and Equipment

Cost	\$3,103,715.57	
Less: accumulated depreciation	<u>2,253,026.05</u>	
Net property and equipment		<u>850,689.52</u>

Total Assets \$2,063,554.60

LIABILITIES AND RETAINED EARNINGSCurrent Liabilities

Accounts payable	\$ 85,478.00	
Taxes and withholding payable	15,233.24	
Deferred tax revenue	403,078.00	
Bed tax assessment	2,500.00	
Salaries and wages payable	54,244.99	
Compensated absences	30,007.30	
Capital lease obligation - due within one year	<u>12,120.68</u>	
Total current liabilities		\$ 602,662.21

Long Term Liabilities

Capital lease obligation		<u>12,120.67</u>
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Total liabilities \$ 614,782.88

Retained Earnings

Reserved for memorial/education funds	\$ 15,526.50	
Unreserved	<u>1,433,245.22</u>	
Total retained earnings		<u>1,448,771.72</u>

Total Liabilities and Retained Earnings \$2,063,554.60

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

RICE COUNTY HOSPITAL DISTRICT NO. 2
d/b/a
SANDSTONE HEIGHTS NURSING HOME
Little River, 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

Resident care - private pay	\$ 650,129.07	
Resident care - Medicaid	995,093.81	
Resident care - Medicare	389,077.45	
Assisted living	113,774.34	
Apartment income	40,192.86	
Meals	10,913.50	
Other	<u>272.66</u>	
Total operating revenues		\$2,199,453.69

Operating Expenses

Personnel	\$1,577,198.42	
Food	66,354.48	
Assisted living/apartments	132,966.52	
Contracted services	296,640.93	
Consumable supplies	113,931.00	
Depreciation	90,193.93	
Other	<u>195,751.12</u>	
Total operating expenses		<u>2,473,036.40</u>

Net income(loss) from operations \$ (273,582.71)

Non-operating Revenue

Tax revenue	\$ 426,088.17	
Contributions	6,482.60	
Interest	<u>1,135.77</u>	
Total non-operating revenue		<u>433,706.54</u>

Net income \$ 160,123.83

Prior period adjustment

Accrued employee health insurance (40,622.71)

Retained earnings - beginning of year 1,329,270.60

Retained Earnings - End of Year \$1,448,771.72

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

RICE COUNTY HOSPITAL DISTRICT NO. 2
d/b/a
SANDSTONE HEIGHTS NURSING HOME
Little River, 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	\$2,307,350.25	
Cash paid to suppliers and employees	(2,408,622.43)	
Tax revenue	426,088.17	
Contributions	6,482.60	
Interest received	1,135.77	
Interest paid	<u>(4,605.13)</u>	
Net cash provided by operating activities		\$ 327,829.23

Cash Flows From Investing Activities

Purchase of property and equipment		(24,372.47)
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Cash Flows From Financing Activities

Repay no-fund warrant	\$ (115,000.00)	
Payments on capital lease obligation	(12,120.68)	
Refund life use deposit	<u>(54,000.00)</u>	
Net cash provided(used) by financing activities		<u>(181,120.68)</u>

Net increase in cash		\$ 122,336.08
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Cash - beginning of year		<u>367,570.78</u>
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Cash - End of Year		<u>\$ 489,906.86</u>
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Reconciliation of Net Income to Net Cash Provided by Operating Activities

Net income	\$ 160,123.83
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	115,209.28
Prior period adjustment	(40,622.71)
Amortization of deferred revenue	(3,452.86)
Change in receivables/prepaid exp.	83,274.61
Change in payables	<u>13,297.08</u>

Cash Provided By Operating Activities		<u>\$ 327,829.23</u>
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Supplemental Schedule of Non-Cash Investing and Financing Activities

None

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

RICE COUNTY HOSPITAL DISTRICT NO. 2

d/b/a

SANDSTONE HEIGHTS NURSING HOME

Little River, 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, an assisted living facility, and independent living apartments in Little River, Kansas. The financial statements of the District present financial information of the District as a whole by including all district funds.

The Rice County Hospital District No. 2 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

NOTES TO FINANCIAL STATEMENTS - CONT.

1. Summary of Significant Accounting Policies-cont.

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.

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

The District sponsors a SIMPLE retirement plan which allows elective employee deferrals and matching employer contributions. 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.

NOTES TO FINANCIAL STATEMENTS - CONT.

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	\$2,618,720.71
Budgeted	<u>3,028,107.00</u>
Favorable Variance	<u>\$ 409,386.29</u>

3. Deposits and Investments

Deposits - At year-end the carrying amount of the District's deposits, including certificates of deposit, was \$629,906.86. The bank balance was \$698,013.82. 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 \$448,013.82 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement 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	\$1,980,482.61
Furnishings and equipment	1,044,355.46
Land	42,084.20
Land improvements	<u>36,793.30</u>
Total Property and Equipment	<u>\$3,103,715.57</u>

Depreciation expense for the year ended December 31, 2012 was \$111,349.42.

5. Third Party Reimbursement

The District receives reimbursement from the Kansas Department of Social and Rehabilitative Services 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.

6. Retirement Plan

The District sponsors a SIMPLE IRA defined contribution retirement plan for all eligible employees opting to participate. Employees are eligible for an employer match of two percent of salary. Additional elective deferrals are permitted. The plan may be terminated at the option of the District. Retirement expense for the year ended December 31, 2012 was \$11,668.30.

NOTES TO FINANCIAL STATEMENTS - CONT.

7. Life Use Agreements

As part of the life-time occupancy agreements, individual occupants are required to make a one-time payment of the cost of their stay in the units as well as additional monthly maintenance fees and other charges. A portion of this payment is reported as a non-interest bearing note repayable to the resident after termination of occupancy. The vested portion of this deposit is reported as deferred revenue and is amortized to income over the life expectancy of the occupant. All life use agreements had expired as of December 31, 2012.

8. Concentrations of Credit Risk

The District operates a residential nursing facility for residents in or around the City of Little River, Kansas. The District grants credit to residents for payment of resident fees. Revenue from the State of Kansas Medicaid program and the Federal Medicare program accounted for approximately 45% and 18% respectively of the District's total operating revenue.

9. Evaluation of Subsequent Events

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

10. No-Fund Warrant

In November, 2010, the District issued a no-fund warrant in the amount of \$115,000.00. The warrant was purchased by the District's bank. The warrant agreement initially called for monthly payments with the final payment due December 1, 2012. Subsequently, the District's bank (Little River State Bank) accepted a note payable for the full amount plus interest of 2.49% at maturity. This warrant was repaid with accrued interest on June 19, 2012.

11. Prior Period Adjustment

The prior period adjustment in the amount of \$40,622.71 arised from partially unpaid employee health insurance premiums incurred during 2010 and 2011 which were not recorded due to an oversight.

12. Subsequent Events

Subsequent to the balance sheet date, the District was charged an assessment of \$8,919.01 related to an audit of its Medicaid funding for prior years.

RICE COUNTY HOSPITAL DISTRICT NO. 2

d/b/a

SANDSTONE NURSING HOME

Little River, Kansas

SCHEDULE OF EXPENSES - PROPRIETARY FUND TYPE
ENTERPRISE FUND

Schedule "1"

For the Year Ended December 31, 2012

Personnel

Salaries and wages	\$1,195,827.25	
Fringe benefits and taxes	<u>381,371.17</u>	
Total personnel		\$1,577,198.42

Food

66,354.48

Apartment/Assisted Living

Salaries	\$ 30,584.16	
Fringe benefits and taxes	5,719.92	
Insurance	8,540.24	
Contracted services	376.75	
Consumable supplies	7,358.89	
Food	27,649.44	
Maint/utilities	27,721.77	
Depreciation	<u>25,015.35</u>	
Total apartment/assisted living		132,966.52

Contracted Services

Health services	\$ 232,874.06	
Health consultants	8,990.30	
Financial	28,515.00	
Other professional fees	<u>26,261.57</u>	
Total contractual services		296,640.93

Consumable Supplies

113,931.00

Depreciation

90,193.93

Other Costs

Training	\$ 5,151.09	
Travel	7,828.27	
Minor equipment	6,599.52	
Lawn care/trash	3,129.49	
Utilities	59,004.52	
Advertising	14,312.57	
Licenses/dues/subscriptions	11,511.92	
Telephone	7,258.59	
Repairs and maintenance	19,527.13	
Insurance	31,422.26	
Bad debts	20,364.95	
Provider bed tax assessment	4,381.93	
Interest	1,301.95	
Other	3,132.93	
Lease and rent	<u>824.00</u>	
Total other costs		<u>195,751.12</u>

Total Expenses

\$2,473,036.40

See independent auditor's report.