

Scott County Rest Home, Inc.
D.B.A. *Park Lane Nursing Home*

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2012

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D.B.A. Park Lane Nursing Home

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INDEPENDENT AUDITORS' REPORT

The Scott County Commissioners
and the Board of Directors of Scott County Rest Home, Inc.
Scott City, KS 67871

We have audited the accompanying financial statements of the business-type activities of Scott County Rest Home, Inc. (d.b.a. Park Lane Nursing Home), as of and for the year ended December 31, 2012, and the related notes to the financial statements which collectively comprise the basic financial statements of Scott County Rest Home, Inc. (d.b.a. Park Lane Nursing Home) 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 *Kansas Municipal Audit and Accounting Guide*. 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 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 the business-type activities of Scott County Rest Home, Inc. (d.b.a. Park Lane Nursing Home), as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

405 North Sixth Street | P.O. Box 699
Garden City, KS 67846
620-275-9267 | 800-627-0636
Fax: 620-275-8936 | www.lhd.com

CPAs

Charles H. Claar, Jr, CPA
Theresa Dasenbrock, CPA, CFE
David L. Hetrick, CPA
Steven D. Josseland, CPA
Gary A. Schlapp, CPA
Rodney Van Norden, CPA

Lisa L. Axman, CPA
Sarah J. Bartel, CPA
Sue A. Bradley, CPA
Rebecca L. Brady, CPA
Susan A. Burgardt, CPA
Tracey Himm, CPA, CSEP
Shannon N. Miller, CPA
Kimberly A. Roth, CPA
Kristin J. Sekavec, CPA
Keysha Urie, CPA
Monica J. Wilson, CPA

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis 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 evidence sufficient to express an opinion or provide any assurance.


LEWIS, HOOPER & DICK, LLC

September 12, 2013

Scott County Rest Home, Inc.

Management Discussion and Analysis

For the year ended December 31, 2012

The following information provides an overview of Scott County Rest Home, Inc.'s financial performance for fiscal year ending December 31, 2012. The information contained here is intended to provide the users of these financial statements with a well rounded picture of the Home's financial condition. A more detailed presentation is given in the Home's basic financial statements and footnotes (pages 2-15). Responsibility for this discussion and the completeness and fairness of the information presented resides with the Home.

Financial Highlights

The assets and deferred outflows of resources of the Scott County Rest Home, Inc. exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$1,875,852 (*net position*). Of this amount, \$197,720 represents unrestricted net position, which may be used to meet the Home's ongoing obligations to citizens and creditors.

The Home's assets and deferred outflows increased from 2011 to 2012 by \$13,045. At December 31, 2012, total assets and deferred outflows were \$2,567,700 as compared to \$2,554,655 at December 31, 2011.

Long-term debt totaled \$370,118 at December 31, 2012, and \$436,947 at December 31, 2011, which is a decrease of \$66,829.

The Home's reported net resident service revenue was \$3,539,064 for fiscal year 2012, and was \$3,673,750 for fiscal year 2011; a decrease of \$134,686 or 3.67%.

The Home reported a deficit of revenues under expenses before capital grants and contributions of \$216,656 for fiscal year 2012, as compared to \$504,443 for fiscal year 2011. This was a decrease of \$287,787, or 57.05%.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Scott County Rest Home, Inc.'s basic financial statements. The Home's financial statements consist of three statements – a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities of the Home, including resources held by the Home for restricted purposes by contributors, grantors, or enabling legislation.

The *statement of net position* presents financial information on all of the Scott County Rest Home, Inc.'s assets, liabilities, and deferred inflows/outflows 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 Home is improving or deteriorating.

The *notes to the financial statements* provide additional information that is necessary to acquire a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 5-15 of this report.

The discussion following is provided to allow for a more simplified understanding of the Home's level of financial stability in relation to that of the previous year (fiscal year 2011).

Net Position

The Home's net position is the difference between its assets and deferred outflows, and its liabilities and deferred inflows reported in the statements of net position on page 2. The Home's net position increased in the past year by \$172,308, or 10.11%, as you can see in the following table.

	2012	2011
Assets:		
Current assets	\$ 484,014	\$ 543,611
Noncurrent assets	2,083,686	2,011,044
Total assets	\$ 2,567,700	\$ 2,554,655
Liabilities:		
Current liabilities	\$ 310,614	\$ 394,675
Long-term debt	370,118	436,947
Total liabilities	\$ 680,732	\$ 831,622
Total deferred inflows of resources	\$ 11,116	\$ 19,489
Net position:		
Invested in capital assets net of related debt	\$ 1,646,664	\$ 1,510,657
Restricted expendable net assets	31,468	106,805
Unrestricted	197,720	77,087
Total net position	\$ 1,875,852	\$ 1,694,549

There was a decrease in the amount of current assets of \$59,597 from 2011; while total assets increased from \$2,554,655 at December 31, 2011, to \$2,567,700 at December 31, 2012.

Long-term debt has decreased from \$436,947 at December 31, 2011, to \$370,118 at December 31, 2012. The payment of principal on the revenue bond was the reason for the decrease in long-term debt. The increased cash flow also resulted in a decrease in accounts payable. The net effects resulted in decreasing the total liabilities and deferred inflows at December 31, 2012; total liabilities and deferred inflows at December 31, 2011, were \$851,111 as compared to \$691,848 at December 31, 2012.

No new long-term debt was initiated during fiscal year 2012.

Operating Results and Changes in Net Position

In 2012, the Home's net position increased by \$172,308 or 10.11%, as shown in the following table. This increase is made up of different components.

	2012	2011
Operating revenues		
Net resident service revenues	\$ 3,539,064	\$ 3,673,750
Other operating revenues	61,379	75,171
Total operating revenues	3,600,443	3,748,921
Operating expenses		
Salaries and benefits	2,228,547	2,238,767
Supplies and other expenses	873,483	940,394
Other operating expenses	539,545	880,852
Depreciation	153,983	167,630
Total operating expenses	3,795,558	4,227,643
Operating loss	(195,115)	(478,722)
Nonoperating revenues (expenses)		
Interest income	1,088	3,177
Other nonoperating revenues (expenses), net	(22,629)	(28,898)
Total nonoperating revenues (expenses)	(21,541)	(25,721)
Deficit of revenues under expenses before capital grants and contributions	(216,656)	(504,443)
Capital grants and contributions	388,964	130,561
Increase (decrease) in net position	172,308	(373,882)
Net position, beginning of year	1,703,544	2,077,426
Net position, end of year	\$ 1,875,852	\$ 1,703,544

The decrease in net resident service revenues from fiscal year 2011 to fiscal year 2012 in the amount of \$134,686 can be attributed to several items, including:

- The Home's total resident days decreased 8.25% or 2,129 from 25,794 in 2011 to 23,665 in 2012.
- The Home's resident services for the apartments decreased by \$38,094 due to the selling of the apartments in August 2012.
- One area that had positive impact on the net resident service revenues for 2012 was nursing home resident services with an increase of \$39,714 in revenue from 2011 to 2012.

The decrease in the operating loss from fiscal year 2011 to fiscal year 2012 of \$283,607 can be primarily attributed to a decrease in operating expenses.

All of these factors helped contribute to the 59.24% total operating loss decrease for fiscal year 2012.

Capital Asset and Debt Administration

At the end of 2012, the Home had \$2,083,686 invested in capital assets, net of accumulated depreciation, as detailed in Note 3E to the financial statements. In 2012, the Home purchased new equipment costing \$295,225. A large part of the 2012 acquisitions were for the following:

Furniture and fixture renovations	\$ 262,121
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At December 31, 2012, the Home had \$437,022 in revenue bonds outstanding. The Home did not issue any in new debt in 2012 or 2011. The Home's formal debt issuances – revenue bonds – cannot be issued without approval of the citizens of Scott County. The amount of debt issued is subject to limitations that apply to the Home.

Other Economic Factors

The outlook for the Home's finances is bright for the upcoming year 2013. Although the Home, as any other healthcare entity does, will have to deal with continued reimbursement challenges and rising costs of providing healthcare, we feel positive that we are working to counter those issues with increased service offerings and better efficiency.

Contact Information

If you have any questions about this report or need additional financial information, please contact the Administrator at Scott County Rest Home, Inc., 210 E. Parklane, Scott City, KS 67871 or at (620) 872-5871.

BASIC FINANCIAL STATEMENTS

SCOTT COUNTY REST HOME, INC.
Statement of Net Position
December 31, 2012

<u>ASSETS</u>	
CURRENT ASSETS	
Cash and cash equivalents	\$ 150,308
Donor restricted cash	60,811
Accounts receivable, less allowance for doubtful accounts of \$72,488	259,240
Prepaid expenses	<u>13,655</u>
TOTAL CURRENT ASSETS	484,014
NONCURRENT ASSETS	
Capital assets, net of accumulated depreciation	<u>2,083,686</u>
TOTAL ASSETS	<u>\$ 2,567,700</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>	
CURRENT LIABILITIES	
Accounts payable	\$ 102,163
Accrued payroll	40,496
Accrued compensated absences	65,209
Other accrued expenses	35,842
Current portion of long-term debt	<u>66,904</u>
TOTAL CURRENT LIABILITIES	310,614
LONG-TERM DEBT, net of current maturities	<u>370,118</u>
TOTAL LIABILITIES	<u>680,732</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned revenue - security deposits	<u>11,116</u>
NET POSITION	
Invested in capital assets net of related debt	1,646,664
Restricted:	
Expendable for capital acquisitions	5,487
Expendable for employee and resident activities	933
Expendable for the chapel	25,048
Unrestricted	<u>197,720</u>
TOTAL NET POSITION	<u>1,875,852</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 2,567,700</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SCOTT COUNTY REST HOME, INC.
Statement of Revenues, Expenses and Changes in Net Position
For the year ended December 31, 2012

OPERATING REVENUES	
RESIDENT SERVICE REVENUES	
Routine services - nursing home	\$ 3,218,599
Routine services - apartments	63,590
Routine services - assisted living	177,129
Ancillary services - other	28,993
Ancillary services - medical	<u>168</u>
Total resident service revenues	3,488,479
Adjustments to resident service revenues:	
Administrative adjustments	<u>50,585</u>
NET RESIDENT SERVICE REVENUES	3,539,064
OTHER OPERATING REVENUES	
Cafeteria sales	25,545
Other	<u>35,834</u>
TOTAL OPERATING REVENUES	<u>3,600,443</u>
OPERATING EXPENSES	
Salaries	2,030,486
Employee benefits	198,061
Supplies and other expenses	873,483
Professional service	520,744
Provision for uncollectible accounts	18,801
Depreciation	<u>153,983</u>
TOTAL OPERATING EXPENSES	<u>3,795,558</u>
OPERATING LOSS	<u>(195,115)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	1,088
Gain (loss) on disposal of assets	3,000
Interest expense and fees	<u>(25,629)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(21,541)</u>
SHORTAGE OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	
	(216,656)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>388,964</u>
INCREASE IN NET POSITION	172,308
NET POSITION, BEGINNING OF YEAR (Note 4F)	<u>1,703,544</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,875,852</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SCOTT COUNTY REST HOME, INC.
Statement of Cash Flows
For the year ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from and on behalf of patients	\$ 3,421,212
Payments to suppliers and contractors	(1,707,492)
Payments to employees	(2,012,084)
Other receipts and payments, net	<u>61,379</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>(236,985)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Contributions	<u>9,276</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of property and equipment	(295,225)
Proceeds from sale of property and equipment	451,289
Principal paid on long-term debt	(63,365)
Interest paid on long-term debt	<u>(25,629)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>67,070</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>1,088</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(159,551)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>370,670</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 211,119</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEET	
Cash and cash equivalents in current assets	\$ 150,308
Donor restricted cash	<u>60,811</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 211,119</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (195,115)
Adjustments to reconcile operating loss to net cash flows used in operating activities:	
Depreciation	153,983
Provision for uncollectible accounts	18,801
Changes in:	
Accounts receivable	(109,479)
Prepaid expenses	(9,277)
Accounts payable	(125,344)
Accrued payroll	12,078
Accrued compensated absences	6,324
Other accrued expenses	19,417
Unearned revenue-security deposits	<u>(8,373)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (236,985)</u>
Schedule of non-cash capital and related financing activities:	
Capital assets received	\$ 379,688

The accompanying Notes to Financial Statements are an integral part of this statement.

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

1. Summary of significant accounting policies

The Scott County Rest Home, Inc. is a quasi-governmental entity which operates as Park Lane Nursing Home located in Scott City, Kansas. The Home is a health care facility that includes the operation of a nursing home care unit and assisted living apartments. They are operated from facilities owned and leased by the Scott County Rest Home, Inc.

The financial statements of the Home have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Home's accounting policies are described below.

A. Reporting entity

The Scott County Rest Home, Inc. is governed by an appointed five-member board. These financial statements present the Scott County Rest Home, Inc. (the primary government) and its component units. Component units are included in the reporting entity because of the significance of their operational or financial relationship with the primary government; however, Scott County Rest Home, Inc. has no component units.

B. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

C. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, liabilities, deferred outflows/inflows of resources, and net position

1. Cash and cash equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of six months or less from the date of acquisition.

2. Deposits and investments

State statutes authorize the Home to invest idle funds in U.S. government securities, temporary notes, no-fund warrants, repurchase agreements and the Kansas Municipal Investment Pool. The Kansas Municipal Investment Pool operates in accordance with appropriate State laws and regulations. The report value of the investment in the Kansas Municipal Investment Pool is the same as the fair value of its pool shares. Other investments of the Home are stated at fair value, which equals cost. The aggregate value of the investments at December 31, 2012, is \$10,815.

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

1. Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position (continued)

3. Allowance for doubtful accounts

For the year ended December 31, 2012, fifteen percent of the accounts receivable in excess of four months are charged to the allowance for doubtful accounts.

4. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

5. Capital assets

Capital assets are defined by the Home as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. None of the Home's interest costs were capitalized in 2012.

All capital assets are recorded at historical cost. Capital assets contributed to the Home are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following estimated useful lives:

Land improvements	10 to 25 years
Buildings and building improvements	10 to 25 years
Equipment	5 to 10 years

6. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Home has one item that qualifies for reporting in this category. The Home reports unearned revenues from one source: security deposits. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7. Long-term obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when incurred.

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

1. Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position (continued)

8. Net position flow assumption

Sometimes the 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 proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Home's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

9. Net position

Net position of the Home is classified in three components. *Net position invested in capital assets net of related debt* consist of property and equipment net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Home. *Unrestricted net position* is remaining net position that does not meet the definition of *invested in capital assets net of related debt* or *restricted in expendable net position*.

E. Revenues and expenses

1. Net resident service revenues

Net resident service revenues are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

2. Concentration of credit risk

The Home's business activity is primarily with residents located within Scott County, Kansas. The Home grants credit without collateral to its residents, most of whom are from the local area. Receivables from residents and third-party payors were as follows:

	2012
Medicare and Medicaid	45%
Other third-party payors (none over 10%)	1%
Residents	54%
	<u>100%</u>

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

1. Summary of significant accounting policies (continued)

E. Revenues and expenses (continued)

3. Grants and contributions

From time to time, the Home receives grants from the State of Kansas as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

4. Operating and nonoperating revenues and expenses

The Home's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Home's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

5. Compensated absences

Vacation

The Home's policy regarding vacation leave pay permits employees to accumulate leave days at a maximum rate of 150 hours per year. Vacation leave pay is accrued when incurred in the financial statements. Vacation leave not used within twelve months after an employee's anniversary date is paid to the employee in the last payroll prior to the anniversary date. The Home has estimated the value of accrued vacation leave pay at December 31, 2012, to be \$65,209.

Sick Leave

The Home's policy regarding sick leave pay permits employees to accumulate leave days at a maximum rate of .024 hours per hour worked up to 96 hours. The Home's policy is to recognize the costs of sick leave when actually paid since employees are not reimbursed for unused sick leave when they leave the Home's employ.

2. Stewardship, compliance and accountability

A. Compliance with Kansas statutes

References made herein to the statutes are not intended as interpretations of the law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and the legal representation of the Home. No material violations of Kansas statutes were noted.

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

3. Detailed notes

A. Restricted net position

Restricted, expendable net position is available for the following purposes:

Capital acquisitions	\$ 5,487
Employee / resident activities	933
Chapel	<u>25,048</u>
Total expendable, restricted net position	<u><u>\$ 31,468</u></u>

B. Deposits and investments

Cash and cash equivalents

Cash and cash equivalents consist of the following:

Cash	\$ 118,394
Operating savings	21,099
Other investments	<u>10,815</u>
Total	150,308
Donor restricted cash	<u>60,811</u>
Total cash and cash equivalents	<u><u>\$ 211,119</u></u>

Deposits and investments

A reconciliation of cash and investments as shown on the balance sheets for the primary government is as follows:

Cash and cash equivalents	\$ 150,308
Donor restricted cash	<u>60,811</u>
Total cash and investments	<u><u>\$ 211,119</u></u>

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the Home. The statute requires banks eligible to hold the Home's funds have a main or branch bank in the county in which the Home is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The Home has no other policies that would further limit interest rate risk.

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

3. Detailed notes (continued)

B. Deposits and investments (continued)

Investments

As of December 31, 2012, the Home had the following investment:

Investment Type	Fair Value	Investment Maturities in Years		Rating
		Less than 1	10.5	
Federal Home Loan Mortgage Corp secured by U.S. Treasury	\$ 10,815	\$ -	\$ 10,815	N/A
Total fair value	<u>\$ 10,815</u>	<u>\$ -</u>	<u>\$ 10,815</u>	

Investment rate risk

K.S.A. 12-1675 limits the Home's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Home has no investment policy that would further limit its investment choices. The rating of the Home's investment is noted above.

Concentration of credit risk

State statutes place no limit on the amount the Home may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the Home's deposits may not be returned to it. State statutes require the Home's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The Home has no designated "peak periods".

At December 31, 2012, the Home's carrying amount of deposits was \$211,119 and the bank balance was \$241,701. Ninety-five percent of the bank balance was held by two banks resulting in a concentration of credit risk. All of the bank balance was covered by federal depository insurance.

Custodial credit risk - investments

Custodial credit risk for an investment is the risk that, in the event of the failure of the issuer or counterparty, the Home will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

3. Detailed notes (continued)

C. Accounts receivable

Accounts receivable reported as current assets by the Home at December 31, 2012, consists of the following amounts:

Receivable from residents and their insurance carriers	\$ 178,287
Receivable from Medicare	17,599
Receivable from Medicaid	130,943
Receivable from Zella Carpenter Trust	<u>4,899</u>
Total receivable	331,728
Less allowance for doubtful accounts	<u>(72,488)</u>
Accounts receivable, net	<u><u>\$ 259,240</u></u>

D. Third-Party Reimbursement Agreements

The Home has agreements with third-party payers that provide for payments to the Home at amounts different from its established rates. These payment arrangements include:

- Medicare – The Home has been reimbursed for services rendered to residents covered by the federal Medicare program on a prospective payment system. The reimbursement plan is on a prospective basis and no additional settlement will be made on the difference between the rates paid and actual costs.
- Medicaid – The Medicaid program reimburses the Home for services rendered to the Medicaid beneficiaries based on a prospective per diem rate established by the Medicaid program. The per diem rate established by Medicaid is based primarily on prior years' cost, subject to a maximum per diem rate set by the State of Kansas.

Revenue from the Medicare and Medicaid programs accounted for approximately 1 percent and 51 percent, respectively, of the Home's net resident service revenue for the year ended December 31, 2012. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation.

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

3. Detailed notes (continued)

E. Capital assets

Capital asset additions, retirements and balances for the year ended December 31, 2012, are as follows:

	Balance 12/31/11	Additions	Retirements	Balance 12/31/12
Cost:				
Land	\$ 29,000	\$ -	\$ 5,000	\$ 24,000
Buildings and improvements	3,478,263	379,688	689,805	3,168,146
Equipment	1,083,862	295,225	95,391	1,283,696
Total cost	4,591,125	674,913	790,196	4,475,842
Less accumulated depreciation for:				
Buildings and improvements	(1,648,744)	(102,670)	(265,466)	(1,485,948)
Equipment	(931,337)	(62,602)	(87,731)	(906,208)
Total accumulated depreciation	(2,580,081)	(165,272)	(353,197)	(2,392,156)
Net capital assets	\$ 2,011,044	\$ 509,641	\$ 436,999	\$ 2,083,686

F. Leases

Operating leases

In April 1989 the Home entered into an operating lease agreement for the use of land, building and equipment owned by Scott County. The lease was for 5 years with seven consecutive, automatic five-year renewal terms available through May 1, 2030. The annual rental payments were \$1. These assets were given to the Home in July 2012 and subsequently sold in August 2012.

On December 7, 2011, the Home entered into an operating lease agreement for the use of a dishwashing machine. The lease is for 24 months with an annual renewal option. Payments under this lease agreement for the year ended December 31, 2012, totaled \$4,102. Future minimum lease requirements are \$170 per month through December 2013.

G. Long-term debt

Revenue bonds

The Home issues revenue bonds to provide funds for the acquisition and construction or improvement of major capital assets. The original principal amount of revenue bonds issued in prior years was \$900,000.

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

3. Detailed notes (continued)

G. Long-term debt (continued)

Revenue bonds (continued)

Revenue bonds are direct obligations and the full faith and credit of the Home is pledged to their repayment. These bonds generally are issued as 5 to 15-year serial bonds with nearly equal amounts of principal maturing each year. Revenue bonds currently outstanding are as follows:

Health care facilities revenue bonds Series 2002, serial bonds due in quarterly installments ranging from \$16,477 to \$21,832 through September 30, 2018, bearing interest at rate of 5.24%.	\$ 437,022
Total revenue bonds payable	437,022
Less current portion	66,904
Long-term portion	\$ 370,118

Maturities on revenue bonds payable at December 31, 2012, are as follows:

Year	Principal	Interest	Total
2013	\$ 66,904	\$ 21,581	\$ 88,485
2014	70,480	18,005	88,485
2015	74,246	14,239	88,485
2016	78,180	10,305	88,485
2017	82,391	6,094	88,485
2018	64,821	1,542	66,363
Total	\$ 437,022	\$ 71,766	\$ 508,788

Changes in long-term liabilities

Long-term liability activity for the Home for the years ended December 31, 2012, is as follows:

	Balance 12/31/11	Additions	Reductions	Balance 12/31/12	Amounts Due Within One Year
Revenue bonds	\$ 500,387	\$ -	\$ 63,365	\$ 437,022	\$ 66,904
Total long-term debt	500,387	-	63,365	437,022	\$ 66,904
Less current maturities	-	66,904	-	66,904	
Net long-term debt	\$ 500,387	\$ (66,904)	\$ 63,365	\$ 370,118	

Interest expense

The amount of interest cost incurred and charged to expense during the year ended December 31, 2012, was \$25,629.

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

4. Other information

A. Risk management

The Home is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

B. Commitments and contingencies

Contracts

On April 1, 2011, the Home entered into an agreement for financial consulting services. The agreement was for 3 years. Payments under the service agreement for the year ended December 31, 2012, totaled \$29,193. This agreement was terminated at the end of 2012.

On April 1, 2011, the Home entered into an agreement for management services. The agreement was for 5 years; payments under this management services agreement for the year ended December 31, 2012, totaled \$165,000. This agreement was terminated in September 2012.

Litigation

The Home has the potential for legal action arising from normal business activities. The Home is currently involved in pending litigation. Management cannot predict the outcome of potential lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements. Management believes that losses resulting from these matters, if any, would be covered under the Home's workmen's compensation and professional liability insurance policies and would not have a material effect on the financial position of the Home.

C. Post-employment health care benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Home makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. This program is offered for a maximum duration of 36 months after the employee's termination date. There is no cost to the Home under this program, and there were two participants in the program at December 31, 2012.

D. Pension plan

The Home adopted a defined contribution pension plan, covering substantially all of its employees, on January 1, 1986, with model amendment January 1, 2002, to reflect provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 and amendment January 1, 2012, to bring the Plan into compliance with the Pension Protection Act of 2006 and other legislative and regulatory changes. The plan is administered by Scott County Rest Home, Inc. and is funded through a group annuity contract issued by American United Life Insurance Company, and both the employer and employees contribute to the plan. The Home makes biweekly contributions to the Plan for each plan year equal to 5% of the participant's compensation up to 50% of the social security taxable wage base (SSTWB), plus 9.3% of their compensation, if any, in excess of the 50% of the SSTWB. The contributions made by the Home to the plan in 2012 total \$46,728.

SCOTT COUNTY REST HOME, INC.
Notes to Financial Statements
December 31, 2012

4. Other information (continued)

E. Subsequent event

Subsequent to December 31, 2012, the Home entered into the following capital leases payable:

Capital lease obligation, at 12.3% imputed interest collateralized by leased equipment with cost of \$8,347 at March 31, 2013.	\$ 8,347
Capital lease obligation, at 0.0% imputed interest collateralized by leased equipment with cost of \$17,550 at June 5, 2013.	<u>17,550</u>
Total subsequent capital leases payable	<u>\$ 25,897</u>

Future minimum lease obligations and the net present value of the minimum lease payments on these subsequent leases are as follows:

2013	\$ 3,531
2014	6,174
2015	6,174
2016	6,174
2017	4,398
2018	<u>1,755</u>
Total minimum lease payments	28,206
Less amount representing interest	<u>(2,309)</u>
Present value of future minimum lease obligations	<u>\$ 25,897</u>

F. Prior period adjustments

The unrestricted net position at December 31, 2011, was decreased by \$8,995 due to removing the beneficial interest in Scott County Community Foundation. The beneficial interest was included in prior years due to the Home following the guidance of the Financial Accounting Standards Board. Due to a change in governance in 2012 the Home fell under the guidance of the Governmental Accounting Standards Board.