

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

December 31, 2019

OFFICERS AND DIRECTORS

Curtis Crandall
Randall Olander
Kay Howie
Jolene Ramage
John Armond

Chairman
Vice-Chairman
Secretary
Director
Director

* * *

Todd Schlosser

Administrator

* * *

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, 2019

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JAMES R. NORTHCUTT

Certified Public Accountant

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Independent Auditor's Report

The Board of Directors
Rice County Hospital District #2
d/b/a Sandstone Height Nursing Home
Little River, Kansas

Report on the Financial Statements

I have audited the accompanying financial statements of the business-type activity of Rice County Hospital District #2, d/b/a Sandstone Heights Nursing Home, Little River, Kansas, which comprise the Balance Sheet as of December 31, 2019, and the related Statements of Revenues, Expenses, and Changes in Net Position, and Cash Flows for the year then ended, and the related notes to the financial statements, which collectively comprise Rice County Hospital District #2's basic 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 organizations'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 organizations'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 audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Rice County Hospital District #2, d/b/a Sandstone Heights Nursing Home, Little River, Kansas, as of December 31, 2019, and the changes in net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted management's discussion and analysis that 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. My opinion on the basic financial statements is not affected by this missing information.

Additional Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenses on page 11, Schedule of Capital Assets on page 12, and Schedule of Changes in Long-Term Debt on page 13 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



James R. Northcutt

Wichita, Kansas

August 30, 2020

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

BALANCE SHEET
December 31, 2019

Exhibit "A"

ASSETS

Current Assets

Cash	\$ 576,699.85	
Short-term investments	140,000.00	
Accounts receivable - residents	364,695.48	
Less: allowance for doubtful accounts	(68,000.00)	
Tax levy receivable	717,997.00	
Other receivables and prepaid expenses	<u>16,898.97</u>	
Total current assets		\$1,748,291.30

Property and Equipment

Cost	\$3,546,339.16	
Less: accumulated depreciation	<u>(2,871,513.92)</u>	
Net property and equipment		674,825.24

Other Assets

Deferred bond costs - net of amortization	\$ 82,256.49	
Cash - construction accounts	<u>2,220,614.75</u>	
Total other assets		<u>2,302,871.24</u>

Total Assets		<u>\$4,725,987.78</u>
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LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Current Liabilities

Accounts payable	\$ 151,613.59	
Prepaid resident accounts	35,254.76	
Taxes and withholding payable	20,235.55	
Salaries and wages payable	51,571.62	
Accrued compensated absences	34,828.32	
Accrued bond interest	29,687.52	
Obligation under bond agreement-due within one year	<u>75,000.00</u>	
Total current liabilities		\$ 398,191.36

Long-Term Liabilities

Obligation under bond agreement		<u>2,280,000.00</u>
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Total liabilities		\$2,678,191.36
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Deferred Inflows of Resources

Property tax revenue		717,997.00
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Net Position

Invested in capital assets, net	\$ 674,825.24	
Reserved for memorial/education funds	14,863.91	
Unrestricted	<u>640,110.27</u>	
Total net position		<u>1,329,799.42</u>

Total Liabilities, Deferred Inflows of Resources, and Net Position		<u>\$4,725,987.78</u>
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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 NET POSITION

Exhibit "B"

For the Year Ended December 31, 2019

Operating Revenue

Resident care - private pay	\$ 607,146.42	
Resident care - Medicaid	1,317,032.30	
Resident care - Medicare	292,225.76	
Assisted living	139,262.06	
Apartment income	43,800.00	
Meals	7,921.16	
Personal services	18.34	
Other	<u>10.51</u>	
Total operating revenues		\$2,407,416.55

Operating Expenses

Personnel	\$1,885,569.11	
Food	96,558.65	
Contracted services	566,028.71	
Consumable supplies	159,714.32	
Depreciation	62,896.39	
Other	<u>378,313.17</u>	
Total operating expenses		<u>3,149,080.35</u>

Net income(loss) from operations \$ (741,663.80)

Non-operating Revenue

Tax revenue	\$ 553,021.52	
Contributions	1,530.00	
Interest	<u>2,009.77</u>	
Total non-operating revenue		<u>556,561.29</u>

Increase(decrease) in net position \$ (185,102.51)

Net position - beginning of year 1,514,901.93

Net Position - End of Year \$1,329,799.42

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
For the Year Ended December 31, 2019

Exhibit "C"

Cash Flows From Operating Activities

Cash received - residents and third party payors	\$2,329,256.46	
Cash paid to suppliers and employees	(2,900,523.22)	
Tax revenue	553,021.52	
Contributions	1,530.00	
Interest received	2,009.77	
Interest paid	<u>(0.00)</u>	
Cash provided(used) by operating activities		\$ (14,705.47)

Cash Flows From Investing Activities

Purchase of property and equipment	\$ (94,855.14)	
Capitalized interest paid	(89,062.56)	
Capitalized interest received	<u>53,693.70</u>	
Cash provided(used) by investing activities		(130,224.00)

Cash Flows From Financing Activities

Payment of bond issuance costs		<u>(61,367.84)</u>
Net increase(decrease) in cash		\$ (206,297.31)
Cash - beginning of year		<u>3,003,611.91</u>
Cash - End of Year		<u>\$2,797,314.60</u>

Reconciliation of Net Income to Net Cash Provided by Operating Activities

Net income(loss)	\$(185,102.51)	
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	62,896.39	
Amortization	1,099.40	
Bad debt expense	72,543.83	
Change in receivables/prepaid exp.	(82,476.03)	
Change in payables	<u>116,333.45</u>	
Cash Provided(Used) By Operating Activities		<u>\$ (14,705.47)</u>

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, 2019

1. Summary of Significant Accounting Policies

Organization

The Rice County Hospital District No. 2 Living (hereafter referred to as the 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.

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.

Basis of Accounting

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash

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

Accounts Receivable

The District reports resident accounts receivable at net realizable value from third-party payors and others. As a service to residents, the District 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 District 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.

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.

Income Taxes

As an essential government function of Rice County, Kansas, the District is exempt from Federal and Kansas income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

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, 2019. 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 inflow of resources on the balance sheet.

NOTES TO FINANCIAL STATEMENTS - CONT.

1. Summary of Significant Accounting Policies-cont.

Net Position

Net position of the District is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Designated expendable net position(Memorial/Activity Funds) are non-capital net position that are reserved for use for a particular purpose, as specified by the board of directors. Unrestricted net position(deficit) is the remaining net position that does not meet the definitions of the other two components of net position.

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, 2019 are as follows:

Actual	\$3,145,808.76
Budgeted	<u>3,711,528.00</u>
Favorable Variance	<u>\$ 565,719.24</u>

Two of the monthly bond debt service payments were not remitted to the bond trustee within the twenty day requirement of KSA 10-130.

3. Deposits and Investments

Deposits - At year-end the carrying amount of the District's deposits, including certificates of deposit, was \$2,937,314.60. The bank balance was \$2,950,975.41. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$390,000.00 was covered by FDIC insurance and \$2,560,975.41 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, 2019.

4. Property and Equipment

A summary of property and equipment is as follows:

Buildings and improvements	\$2,291,998.58
Furnishings and equipment	1,013,412.96
Vehicles	133,890.12
Land	42,084.20
Land improvements	<u>64,953.30</u>
Total Property and Equipment	<u>\$3,546,339.16</u>

Depreciation expense for the year ended December 31, 2019 was \$62,896.39. Construction period interest costs paid of \$89,062.56 and interest income received on the construction account of \$53,693.70 were capitalized.

NOTES TO FINANCIAL STATEMENTS - CONT.

5. Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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 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, 2019 was \$33,578.26.

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 55% and 12% respectively of the District's total operating revenue.

9. Bonds Payable

General Obligation Healthcare Improvement Bonds - Series 2018

Interest rate variable from 3.0% to 4.25%.	\$2,355,000.00
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Less: portion due within one year	<u>75,000.00</u>
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Long-Term Portion	<u>\$2,280,000.00</u>
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The bond proceeds were used for facility improvements. The Board of Directors of the District is to annually make proper provision for the payment of principal and interest of the bonds by a tax levy.

Bond issuance costs of \$83,355.89 related to the 2018 issue have been capitalized and are being amortized over the life of the bonds(20 years). Amortization expense recognized for these costs for the year ended December 31, 2019 was \$1,099.40.

NOTES TO FINANCIAL STATEMENTS - CONT.

9. Bonds Payable - cont.

Debt service requirements for the fiscal years ended December 31 are for the following amounts:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 75,000.00	\$ 89,062.50	\$ 164,062.50
2021	75,000.00	86,812.50	161,812.50
2022	80,000.00	84,562.50	164,562.50
2023	85,000.00	82,162.50	167,162.50
2024	85,000.00	79,612.50	164,612.50
Thereafter	<u>1,955,000.00</u>	<u>705,862.50</u>	<u>2,660,862.50</u>
Total	<u>\$2,355,000.00</u>	<u>\$1,128,075.00</u>	<u>\$3,483,075.00</u>

Interest costs for the year ended December 31, 2019 was \$89,062.56 all of which were capitalized.

10. Adoption of New Accounting Standard

In 2019, the District adopted the provisions of ASC 606, Contracts with Customers, issued by the Financial Accounting Standards Board. The District has determined that the adoption of ASC 606 did not result in an adjustment to retained earnings as of January 1, 2019. The adoption of ASC 606 has no impact on the organization's accounts receivable as it was historically recorded net of allowance for doubtful accounts and contractual adjustments.

11. Evaluation of Subsequent Events

Subsequent to the balance sheet date, the World Health Organization(WHO) classified the COVID-19 virus outbreak as a pandemic based on the rapid increase in spread globally. As of the date of this report, it is uncertain as to the full impact the pandemic will have on the District's financial condition, liquidity, and results of operations. Do to the uncertainty, the District is not able to estimate the effects of the COVID-19 outbreak on its financial condition, liquidity or results of operations for the year ended 2020.

The District has evaluated subsequent events through August 30, 2020 which is the date the financial statements were available to be issued.

RICE COUNTY HOSPITAL DISTRICT NO. 2

d/b/a

SANDSTONE NURSING HOME

Little River, Kansas

SCHEDULE OF EXPENSES

Schedule "1"

For the Year Ended December 31, 2019

Personnel

Salaries and wages	\$1,363,101.77	
Salaries - administration/maintenance	188,954.10	
Fringe benefits and taxes	<u>333,513.24</u>	
Total personnel		\$1,885,569.11

Food

96,558.65

Contracted Services

Health services	\$ 498,808.69	
Health consultants	10,099.68	
Financial	34,734.65	
Other professional fees	<u>22,385.69</u>	
Total contractual		566,028.71

Consumable Supplies

159,714.32

Depreciation

62,896.39

Other Costs

Training	\$ 1,891.51	
Travel	4,308.88	
Minor equipment	13,255.13	
Activities/resident expense	6,165.82	
Utilities	101,014.34	
Advertising	22,046.01	
Licenses/dues/subscriptions	8,199.59	
Telephone and internet	16,715.36	
Repairs and maintenance	28,640.09	
Insurance	41,585.00	
Bad debts	72,543.83	
Provider assessment	29,448.00	
Amortization	1,099.40	
Software and updates	13,617.38	
Other	1,038.24	
Lease and rent	<u>16,744.59</u>	
Total other costs		<u>378,313.17</u>

Total Expenses

\$3,149,080.35

See independent auditor's report.

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

SCHEDULE OF CAPITAL ASSETS

Schedule "2"

For the Year Ended December 31, 2019

	Beginning Balance	Additions	Dispositions	Ending Balance
Land	\$ 42,084.20	\$	\$	\$ 42,084.20
Land improvements	64,953.30			64,953.30
Buildings and improvements	2,184,722.50	107,276.08		2,291,998.58
Furnishings and equipment	1,011,881.71	1,531.25		1,013,412.96
Vehicles	<u>133,890.12</u>			<u>133,890.12</u>
Totals at historical cost	\$ 3,437,531.83	\$ 108,807.33	\$ 0.00	\$ 3,546,339.16
Less accumulated depreciation				
Land improvements	\$ 36,765.79	\$ 2,241.53	\$	\$ 39,007.32
Buildings and improvements	1,686,820.13	48,982.99		1,735,803.12
Furnishings and equipment	951,141.48	11,671.88		962,813.36
Vehicles	<u>133,890.12</u>	<u>0.00</u>		<u>133,890.12</u>
Total accumulated depreciation	\$ 2,808,617.52	\$ 62,896.40	\$ 0.00	\$ 2,871,513.92
Capital Assets, Net	\$ <u>628,914.31</u>	\$ <u>45,910.93</u>	\$ <u>0.00</u>	\$ <u>674,825.24</u>

See independent auditor's report.

RICE COUNTY HOSPITAL DISTRICT NO. 2

d/b/a

SANDSTONE HEIGHTS NURSING HOME

Little River, Kansas

SCHEDULE OF CHANGES IN LONG-TERM DEBT

For the Year Ended December 31, 2019

Schedule "3"

General Obligation Healthcare
Improvement Bonds - Series 2018

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>
	\$ <u>2,355,000.00</u>	\$ <u>0.00</u>	\$ <u>0.00</u>	\$ <u>2,355,000.00</u>

Maturity Schedule

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ 75,000.00	\$ 89,062.50	\$ 164,062.50
2021	75,000.00	86,812.50	161,812.50
2022	80,000.00	84,562.50	164,562.50
2023	85,000.00	82,162.50	167,162.50
2024	85,000.00	79,612.50	164,612.50
2025-29	500,000.00	353,862.50	853,862.50
2030-34	650,000.00	247,312.50	897,312.50
2035-39	805,000.00	104,687.50	909,687.50
Totals	\$ <u>2,355,000.00</u>	\$ <u>1,128,075.00</u>	\$ <u>3,483,075.00</u>

See independent auditor's report.