

**Logan Manor Community Health Services
A Fund of the City of Logan, Kansas**

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017



Logan Manor Community Health Services
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Independent Auditor's Report

Board of Trustees
Logan Manor Community Health Services
Logan, Kansas

We have audited the accompanying financial statements of Logan Manor Community Health Services (Manor), a fund of the City of Logan, Kansas, as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Logan Manor Community Health Services' basic financial statements 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 audits. We conducted our audits 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 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 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 Logan Manor Community Health Services as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Logan Manor Community Health Services has omitted the 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Logan Manor Community Health Services' basic financial statements. The Net Resident Service Revenue and Other Revenue and Divisional Revenues and Expenses as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Wichita, Kansas
March 11, 2019

Logan Manor Community Health Services
A Fund of the City of Logan, Kansas
Balance Sheets
December 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	\$ 190,865	\$ 148,358
Short-term certificates of deposit	53,171	52,753
Resident accounts receivable, net of allowance; 2018 - \$110,000, 2017 - \$110,000	260,154	199,982
Supplies	17,327	17,477
Prepaid expenses and other	32,976	40,660
Total current assets	554,493	459,230
Assets Limited to Use by External Donors	99,118	99,118
Capital Assets, Net	905,251	984,151
Total assets	\$ 1,558,862	\$ 1,542,499

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 44,549	\$ 66,235
Accrued expenses	125,064	157,095
Total current liabilities	169,613	223,330
Net Position		
Net investment in capital assets	905,251	984,151
Unrestricted	384,880	235,900
Restricted - nonexpendable	99,118	99,118
Total net position	1,389,249	1,319,169
Total liabilities and net position	\$ 1,558,862	\$ 1,542,499

Logan Manor Community Health Services
A Fund of the City of Logan, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		
Net resident service revenue, net of provision for uncollectible accounts; 2018 - \$0, 2017 - \$0	\$ 2,580,238	\$ 2,434,687
Other	23,750	26,224
Total operating revenues	2,603,988	2,460,911
Operating Expenses		
Salaries and wages	1,511,335	1,528,064
Employee benefits	317,349	333,031
Contract labor	132,697	137,555
Medical supplies and drugs	83,621	76,024
Food	109,669	118,113
Utilities and telephone	88,940	89,292
Repairs and maintenance	51,904	53,674
Insurance	64,458	73,333
Mileage	5,610	6,404
Dues and subscriptions	45,048	37,766
Advertising	1,962	917
Office supplies	11,049	9,222
Supplies and other	35,508	27,279
Depreciation	101,353	108,362
Total operating expenses	2,560,503	2,599,036
Operating Income (Loss)	43,485	(138,125)
Nonoperating Revenues		
Interest income	1,462	1,316
Noncapital gifts	11,953	8,242
Total nonoperating revenues	13,415	9,558
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	56,900	(128,567)
Capital grants and gifts	13,180	50,446
Increase (Decrease) in Net Position	70,080	(78,121)
Net Position, Beginning of Year	1,319,169	1,397,290
Net Position, End of Year	\$ 1,389,249	\$ 1,319,169

Logan Manor Community Health Services
A Fund of the City of Logan, Kansas
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from and on behalf of residents	\$ 2,520,066	\$ 2,481,886
Payments to suppliers and contractors	(644,318)	(641,428)
Payments to employees	(1,860,715)	(1,877,010)
Other receipts, net	25,529	27,499
Net cash provided by (used in) operating activities	40,562	(9,053)
Noncapital Financing Activities		
Gifts for specific operating activities	11,953	8,242
Net cash provided by noncapital financing activities	11,953	8,242
Capital and Related Financing Activities		
Purchase of capital assets	(24,232)	(58,865)
Capital gifts	13,180	50,446
Net cash used in capital and related financing activities	(11,052)	(8,419)
Investing Activities		
Maturities of short-term certificates of deposit	-	52,056
Interest income	1,044	754
Net cash provided by investing activities	1,044	52,810
Increase in Cash	42,507	43,580
Cash, Beginning of Year	247,476	203,896
Cash, End of Year	\$ 289,983	\$ 247,476

Logan Manor Community Health Services
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Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 190,865	\$ 148,358
Assets limited to use	99,118	99,118
Total cash	\$ 289,983	\$ 247,476
Reconciliation of Operating Income (Loss) to		
Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 43,485	\$ (138,125)
Depreciation	101,353	108,362
Loss on sale of capital assets	1,779	1,275
Changes in operating assets and liabilities		
Resident accounts receivable, net	(60,172)	47,199
Accounts payable and accrued expenses	(53,717)	(32,095)
Other assets	7,834	4,331
Net cash provided by (used in) operating activities	\$ 40,562	\$ (9,053)

Logan Manor Community Health Services
A Fund of the City of Logan, Kansas
Notes to Financial Statements
December 31, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The City of Logan d/b/a Logan Manor Community Health Services (Manor) is an adult care facility located in Logan, Kansas. The Manor is a fund of the City of Logan, Kansas (City), and the City Commissioners appoint members to the Board of Trustees of the Manor. The Manor primarily earns revenues by providing inpatient residential long-term care and assisted living services to its residents who are from the northwest Kansas area.

Basis of Accounting and Presentation

The financial statements of the Manor have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as intergovernmental revenue from property taxes and investment income are included in nonoperating revenues and expenses. The Manor first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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.

Intergovernmental Revenue

The Manor received \$10,000 in financial support from intergovernmental revenue derived from property taxes in both 2018 and 2017. Amounts are recorded in capital grants and gifts in the statement of revenues, expenses and changes in net position.

Property taxes are assessed by the City in November and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

Logan Manor Community Health Services
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Notes to Financial Statements
December 31, 2018 and 2017

Risk Management

The Manor 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.

Resident Accounts Receivable

The Manor reports resident accounts receivable for services rendered at net realizable amounts from third-party payers, residents and others. The Manor provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Manor:

Buildings	39 - 50 years
Building improvements	10 - 35 years
Major moveable equipment	3 - 15 years

Long-lived Asset Impairment

Manor evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2018 and 2017.

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Notes to Financial Statements
December 31, 2018 and 2017

Compensated Absences

Manor policies permit most employees to accumulate vacation, holiday, personal and sick leave benefits that may be realized as paid time off or as a cash payment. Expense and the related liability are recognized as vacation and sick leave benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Manor is classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation. Restricted nonexpendable net position includes noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Manor, such as permanent endowments. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of investment in capital assets or restricted nonexpendable.

Net Resident Service Revenue

The Manor has agreements with third-party payers that provide for payments to the Manor at amounts different from its established rates. Net resident service revenue is reported at the estimated net realizable amounts from residents, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Income Taxes

As an essential government function of the City, the Manor is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Manor is subject to federal income tax on any unrelated business taxable income.

Note 2: Net Resident Service Revenue

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

Medicare. Skilled nursing services rendered to Medicare program beneficiaries are paid at prospectively determined rates.

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Medicaid. Services rendered to Medicaid program beneficiaries are reimbursed under a cost-based prospective reimbursement methodology. Manor is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are adjusted on July 1 and January 1 using an average of the three previously filed annual cost reports and changes in the Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 66% and 69% of net resident service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Note 3: Deposits

Deposits

Custodial credit risk is the risk in the event of a bank failure, a government's deposits may not be returned to it. The Manor's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2018 and 2017, respectively, none of the Manor's bank balances of \$349,222 and \$301,671 were exposed to custodial credit risk.

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Notes to Financial Statements
December 31, 2018 and 2017

Summary of Carrying Values

The carrying value of deposits shown above are included in the balance sheets as follows:

	<u>2018</u>	<u>2017</u>
Carrying value		
Deposits	\$ 343,054	\$ 300,129
Petty cash	<u>100</u>	<u>100</u>
	<u>\$ 343,154</u>	<u>\$ 300,229</u>
Included in the following balance sheet captions		
Cash	\$ 190,865	\$ 148,358
Short-term certificates of deposit	53,171	52,753
Assets limited to use by external donors	<u>99,118</u>	<u>99,118</u>
	<u>\$ 343,154</u>	<u>\$ 300,229</u>

Note 4: Resident Accounts Receivable

The Manor grants credit without collateral to its residents, many of whom are area residents and are insured under third-party payer agreements. Resident accounts receivable at December 31, 2018 and 2017, consisted of:

	<u>2018</u>	<u>2017</u>
Medicaid	\$ 288,762	\$ 227,090
Medicare	3,994	5,816
Residents	<u>77,398</u>	<u>77,076</u>
	370,154	309,982
Less allowance for uncollectible accounts	<u>110,000</u>	<u>110,000</u>
	<u>\$ 260,154</u>	<u>\$ 199,982</u>

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Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2018 and 2017, was:

	2018			Ending Balance
	Beginning Balance	Additions	Disposals	
Land and improvements	\$ 73,522	\$ 2,760	\$ -	\$ 76,282
Buildings and equipment	2,870,265	19,086	(1,873)	2,887,478
Major moveable equipment	271,683	2,386	-	274,069
	<u>3,215,470</u>	<u>24,232</u>	<u>(1,873)</u>	<u>3,237,829</u>
Less accumulated depreciation				
Land and improvements	44,210	309	-	44,519
Buildings and equipment	1,929,595	95,057	(94)	2,024,558
Major moveable equipment	257,514	5,987	-	263,501
	<u>2,231,319</u>	<u>101,353</u>	<u>(94)</u>	<u>2,332,578</u>
Capital Assets, Net	<u>\$ 984,151</u>	<u>\$ (77,121)</u>	<u>\$ (1,779)</u>	<u>\$ 905,251</u>
	2017			Ending Balance
	Beginning Balance	Additions	Disposals	
Land and improvements	\$ 73,522	\$ -	\$ -	\$ 73,522
Buildings and equipment	2,851,957	50,350	(32,042)	2,870,265
Major moveable equipment	264,573	7,110	-	271,683
	<u>3,190,052</u>	<u>57,460</u>	<u>(32,042)</u>	<u>3,215,470</u>
Less accumulated depreciation				
Land and improvements	43,916	294	-	44,210
Buildings and equipment	1,859,770	100,592	(30,767)	1,929,595
Major moveable equipment	250,038	7,476	-	257,514
	<u>2,153,724</u>	<u>108,362</u>	<u>(30,767)</u>	<u>2,231,319</u>
Capital Assets, Net	<u>\$ 1,036,328</u>	<u>\$ (50,902)</u>	<u>\$ (1,275)</u>	<u>\$ 984,151</u>

Logan Manor Community Health Services
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Notes to Financial Statements
December 31, 2018 and 2017

Note 6: Permanently Restricted Net Position

At December 31, 2018 and 2017, restricted nonexpendable net position was available for the following purpose:

	2018	2017
Assisted living improvements	\$ 99,118	\$ 99,118

Note 7: Retirement Plans

The Manor has a 401(a) money purchase pension plan covering substantially all employees. The Manor's contribution is 4% of the employee's salary. Contributions to the plan were \$34,880 and \$42,383 for 2018 and 2017, respectively.

Note 8: Professional Liability Claims

The Manor purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered.

There have been no claims made against the Manor in 2018 or 2017, and as such no accrual has been made for potential future medical malpractice costs.

Supplementary Information

Logan Manor Community Health Services
A Fund of the City of Logan, Kansas
Net Resident Service Revenue and Other Revenue
Years Ended December 31, 2018 and 2017

Net Resident Service Revenue

	2018	2017
Nursing service skilled care	\$ 2,385,793	\$ 2,228,839
Assisted living	178,615	189,044
Home and community based services	15,830	16,804
Net resident service revenue	\$ 2,580,238	\$ 2,434,687

Other Revenue

	2018	2017
Cafeteria sales	\$ 19,285	\$ 25,686
Miscellaneous income	4,465	538
	\$ 23,750	\$ 26,224

Logan Manor Community Health Services
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Divisional Revenues and Expenses
Years Ended December 31, 2018 and 2017

	2018			Total
	Skilled Nursing	Assisted Living	Home and Community Based Services	
Operating Revenues				
Net resident service revenue	\$ 2,385,793	\$ 178,615	\$ 15,830	\$ 2,580,238
Other	19,647	4,103	-	23,750
Total operating revenues	<u>2,405,440</u>	<u>182,718</u>	<u>15,830</u>	<u>2,603,988</u>
Operating Expenses				
Salaries and wages	1,365,602	145,733	-	1,511,335
Employee benefits	273,018	44,260	71	317,349
Contract labor	132,487	210	-	132,697
Drugs and medical supplies	82,854	767	-	83,621
Food and kitchen supplies	103,859	5,810	-	109,669
Utilities	67,773	21,167	-	88,940
Repairs and maintenance	45,839	6,065	-	51,904
Insurance	64,458	-	-	64,458
Supplies and other expenses	99,271	(94)	-	99,177
Depreciation	66,338	35,015	-	101,353
Total operating expenses	<u>2,301,499</u>	<u>258,933</u>	<u>71</u>	<u>2,560,503</u>
Operating Income (Loss)	<u>\$ 103,941</u>	<u>\$ (76,215)</u>	<u>\$ 15,759</u>	<u>\$ 43,485</u>

2017

Skilled Nursing	Assisted Living	Home and Community Based Services	Total
\$ 2,228,839	\$ 189,044	\$ 16,804	\$ 2,434,687
25,928	296	-	26,224
<u>2,254,767</u>	<u>189,340</u>	<u>16,804</u>	<u>2,460,911</u>
1,398,043	130,021	-	1,528,064
297,670	35,361	-	333,031
135,002	2,553	-	137,555
75,545	479	-	76,024
111,747	6,366	-	118,113
66,965	22,327	-	89,292
46,119	7,555	-	53,674
68,995	4,338	-	73,333
81,788	(200)	-	81,588
74,256	34,106	-	108,362
<u>2,356,130</u>	<u>242,906</u>	<u>-</u>	<u>2,599,036</u>
<u>\$ (101,363)</u>	<u>\$ (53,566)</u>	<u>\$ 16,804</u>	<u>\$ (138,125)</u>