CITY-COWLEY COUNTY HEALTH DEPARTMENT

Arkansas City, Winfield, and Cowley County, Kansas

Financial Statements

For the Year Ended December 31, 2012

Edw. B. Stephenson & Co., CPAs Chartered
Certified Public Accountants
Winfield, Kansas

CITY-COWLEY COUNTY HEALTH DEPARTMENT

Arkansas City, Winfield, and Cowley County, Kansas
Financial Statements
For the Year Ended December 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board Members of the
City-Cowley County Health Department
Arkansas City, Winfield, and Cowley County, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the City-Cowley County Health Department, Winfield, Kansas, as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statement
Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note I to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an 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 statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles
As described in Note I to the financial statement, the financial statement is prepared by the Health Department to meet the requirements of the State of Kansas on the basis of financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between regulatory basis of accounting described in Note I and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of City-Cowley County Health Department, Winfield, Kansas, as of December 31, 2012, or the changes in financial position and cash flows thereof for the year then ended.

Opinion of Regulatory Basis of Accounting
In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the City-Cowley County Health Department, Winfield, Kansas, as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note I.

Report on Supplementary Information
Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, general fund schedule of regulatory basis receipts and expenditures, (schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. 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 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or the basic financial statement itself, 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 statement as a whole, on the basis of accounting described in Note I.

Prior Year Comparative Analysis

The 2011 Actual columns presented in the individual fund schedules of cash receipts and expenditures (Schedule 2 as listed in the table of contents) are also presented for comparative analysis and are not a required part of the 2011 financial statement upon which we rendered an unqualified opinion dated October 19, 2012. The 2011 financial statement and our accompanying report are not presented herein, but are available in electronic form from the website of Kansas Department of Administration, Office of Management Analysis and Standards at the following line http://da.ks.gov/ar/muniserv/. Such 2011 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 financial statement. The 2011 comparative information was subjected to the auditing procedures applied in the audit of the 2011 financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2011 financial statement or to the 2011 financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 comparative information is fairly stated in all material respects in relation to the 2011 financial statement as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The accompanying supplemental information summary of assets, liabilities, and unencumbered cash, comparison or receipts and expenditures, as listed in the table of contents are listed for the purpose of additional analysis and are not a required part of the basic 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 basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or the basic financial statement itself, 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 statement as a whole, on the basis of accounting described in Note I.

Edw. B. Stephenson & Co., CPAs Chartered
August 2, 2013

CITY-COWLEY COUNTY HEALTH DEPARTMENT

Arkansas City, Winfield, and Cowley County, Kansas
Summary of Receipts, Expenditures, and Unencumbered Cash
For the Year Ended December 31, 2012

Statement -1-

Fund	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Encumbrances and Accounts Payable	Ending Cash Balance
General	$ 261,913.37	$ -	$ 1,034,421.87	$ 1,081,427.50	$ 214,907.74	$ 636.03	$ 215,543.77
TOTAL REPORTING ENTITY (Excluding Agency Funds)	$ 261,913.37	$ -	$ 1,034,421.87	$ 1,081,427.50	$ 214,907.74	$ 636.03	$ 215,543.77

Composition of Cash:

Petty Cash	$ 400.00
City-County Health Department Checking Accounts	41,452.84
Certificates of Deposit - City-County Health Department	173,690.93
Agency Funds	-
Total Reporting Entity (Excluding Agency Funds)	$ 215,543.77

The notes to the financial statement are an integral part of this statement.

CITY-COWLEY COUNTY HEALTH DEPARTMENT
ARKANSAS CITY, WINFIELD, AND COWLEY COUNTY, KANSAS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City-Cowley County Health Department is a quasi-governmental entity, organized and existing pursuant to K.S.A. 65-201, *et. seq*. The Department provides various health-related services to the residents of Cowley County and cities in that county. The financial statements reflect all the funds relevant to the operations of the City-Cowley County Health Department.

B. Basis of Presentation - Governmental Fund

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following type of fund comprises the financial activities of the City-Cowley County Health Department:

General Fund – The operating fund. used to account for all resources except those required to be accounted for in another fund.

C. Basis of Accounting

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrances obligations to arrive at a net unencumbered cash and investments balances on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis of revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The Health Department has approved a resolution that is in compliance with K.S.A. 75-1120ac, waiving the requirement for application of generally accepted accounting principles and allowing the Health Department to use the regulatory basis of accounting.

1. Cash and Deposits

The Department has two interest-bearing bank accounts, used for all operating activities.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of bank failure, the Department's deposits may not be returned to it. State statutes require the Department's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt 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%. All deposits were legally secured at December 31, 2012.

At December 31, 2012, the Department's carrying amount of deposits was $215,143.77 and the bank balance was $267,240.15. The bank balance was held by two banks resulting in a concentration of credit risk. Of the bank balance, $267,240.15 was covered by federal depository insurance; no amount was necessary to be collateralized with securities held by the pledging financial institutions' agents in the Department's name.

2. Investments

Custodial credit risk – Investments For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Department 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.

State statutes authorize the Department to invest in temporary notes and no-fund warrants of the Department, time deposits, certificates of deposit, United States treasury bills or notes, municipal investment pool fund administered by the State Treasurer, and repurchase agreements. The Department had two Certificates of Deposit with Community National Bank.

3. Accounts Payable and Encumbrances

Accounts Payable and encumbrances consist of liabilities incurred by the Department at December 31, but not paid until the following year.

D. Vacation and Sick Leave

The personnel policies of the City-Cowley County Health Department provide for unused accrued vacation days to be paid to employees terminating in good

standing, or because of retirement or death. Full-time employees with less than five continuous years of service earn one vacation day per month, maximum accumulation of eighteen days. Full-time employees with between five and ten continuous years of service earn one and one-quarter days per month, maximum accumulation of twenty-two days. Full-time employees with ten years or more of continuous service earn one and one-half vacation days per month, maximum accumulation of twenty-four days. Employees who have worked at the department less than five years, working a minimum of half-time, but less than full-time will earn one vacation hour for every twenty-two hours worked, maximum eight hours per month. Employees with between five and ten years of service, working a minimum of half-time, but less than full-time will earn one vacation hour for every sixteen and one-half hours worked, maximum of ten hours per month. Accrued vacation earned but unpaid at December 31 amounted to $28,054.

Full-time employees of the City-Cowley County Health Department earn one day of paid sick leave per month, and half-time employees accrue one hour of paid sick leave for every twenty-two hours worked. Accrued sick leave may not exceed ninety days. All accrued sick leave is forfeited upon employee termination, either voluntary or involuntary.

E. Budget

The Department's bylaws require that an annual budget be prepared, based on estimated funds necessary to carry on the public health activities for the year. It is not subject to the budget laws of the State of Kansas.

F. Defined Benefit Pension Plan

The City-Cowley County Health Department participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq*. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Street, Suite 100; Topeka, KS 66603-3925) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 and K.S.A. 74-49,210 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of

covered salary for Tier 2 members. K.S.A 74=4975 establishes KP&F member-employee contribution rate at 7% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that the employer contribution rates be determined annually base on the results of an annual actuarial valuation. KPERS and KP&F are funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The employer rate established for the period January 1, 2012 to December 31, 2012 is 6.74% The Department's employer contributions to KPERS for the years ending December 31, 2012, 2011, and 2010 were $43,709.74, $40,960.90, and $37,607.93, respectively, equal to the required contributions for each year.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The City-Cowley County Health Department did not have any statutory violations in 2012.

III. LONG-TERM DEBT

The City-Cowley County Health Department has no outstanding long-term debt as of December 31, 2012

IV. OTHER-LONG TERM OBLIGATIONS FROM OPERATIONS

Notes regarding certain leases and compensated absences are as follows:

A. Compensated Absences

The Department does not pay out sick pay upon termination. The personnel policies of the City-Cowley County Health Department provide for unused accrued vacation days to be paid to employees terminating in good standing, or because of retirement or death. Full-Time employees with less than five continuous years of service earn one vacation day per month, maximum accumulation of eighteen days. Full-time employees with between five and ten continuous years of service earn one and one-quarter days per month, maximum accumulation of twenty-two days. Full time employees with ten years or more of continuous service earn one and one-half vacation days per month, maximum accumulation of twenty-four days.

Liability	Beginning Balance	Net Change	Ending Balance
Compensated absences	$ 26,381	$ 1,673	$ 28,054

B. Building Leases

During 2001, the City-Cowley County Health Department entered into a lease agreement to lease the former Mental Health Building at 115 E. Radio Lane, Arkansas City, Kansas, from the Public Building Commission of Arkansas City for an annual payment of $1.00.

The Health Department's Winfield, Kansas, office is located at 320 E. Ninth, Suite B, Winfield, Kansas, and is leased on an annual basis for $18,000.00 per year.

C. Capital Leases

There are no outstanding equipment leases at December 31, 2012.

V. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the report, August 2, 2013.

CITY-COWLEY COUNTY HEALTH DEPARTMENT

Summary of Expenditures-Actual and Budget
Regulatory Basis
For the Year Ended December 31, 2012

Schedule -1-

Fund	Certified Budget	Adjustment to Comply With Legal Max	Adjustments for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
General	$ -	$ -	$ -	$ -	$ -	$ -
Budget Not Certified						
TOTALS	$ -	$ -	$ -	$ -	$ -	$ -

CITY-COWLEY COUNTY HEALTH DEPARTMENT

Arkansas City, Winfield, and Cowley County, Kansas
General Fund
Schedule of Receipts and Expenditures
Regulatory Basis
For the Year Ended December 31, 2012
(With Comparative Actual Total for the Prior Year Ended December 31, 2011)

Schedule - 2 -

	2011	2012
Cash Receipts		
County Appropriation	$ 331,000.00	$ 330,500.00
Intergovernmental		
Federal	305,489.31	328,782.83
State of Kansas	136,078.29	121,670.32
Cities	35,090.00	35,090.00
Fees and Donations	201,721.62	206,740.45
Interest	2,289.84	2,104.14
Other	6,598.31	9,534.13
Total Cash Receipts	$ 1,018,267.37	$ 1,034,421.87
Expenditures		
Salaries	$ 563,269.61	$ 560,275.93
Employee Benefits	219,792.82	241,320.96
Mileage and Meals	29,571.07	28,383.95
Rent Expense	18,005.00	18,065.00
Utilities and Telephone	20,596.50	15,907.75
Medical Supplies	58,449.54	65,245.89
Office Supplies	21,740.19	16,973.29
Client Supplies	6,616.28	9,587.21
Postage	3,259.50	4,046.76
Advertising	3,880.41	5,074.44
Contractual Services	21,081.41	38,044.63
Capital Outlay	6,107.70	1,704.15
Maintenance and Cleaning	16,347.44	17,200.48
Business Insurance	2,843.00	8,368.89
MIS Maintenance	3,596.92	10,779.30
Other Operating Expense	39,869.77	37,550.59
Contingency Fund	11,829.91	2,898.28
Total Expenditures	$ 1,046,857.07	$ 1,081,427.50
Cash Receipts Over (Under) Expenditures	$ (28,589.70)	$ (47,005.63)
Unencumbered Cash Beginning of Year	290,503.07	261,913.37
Prior Year Cancelled Encumbrances	-	-
Unencumbered Cash End of Year	$ 261,913.37	$ 214,907.74

CITY-COWLEY COUNTY HEALTH DEPARTMENT

Arkansas City, Winfield, and Cowley County, Kansas
Summary of Assets, Liabilities, and Unencumbered Cash
For the Year Ended December 31, 2012
(With Comparative Balances for the Prior Year Ended December 31, 2011)

	Prior Year		Current Year	
ASSETS				
Cash in Bank and on Hand	$ 91,700.52		$ 41,452.84	
Petty Cash	200.00		400.00	
Certificate of Deposit	171,723.37		173,690.93	
Checks Receivable	-		-	
Total Assets		$ 263,623.89		$ 215,543.77
LIABILITIES				
Accounts Payable	$ 1,171.56		$ 849.50	
Payroll Withholdings	538.96		(213.47)	
Total Liabilities		1,710.52		636.03
UNENCUMBERED CASH BALANCE DECEMBER 31		$ 261,913.37		$ 214,907.74

See Independent Auditors' report.

CITY-COWLEY COUNTY HEALTH DEPARTMENT

Arkansas City, Winfield, and Cowley County, Kansas
Comparison of Receipts and Expenditures-Actual and Budget
For the Year Ended December 31, 2012

GENERAL FUND

	Actual	Budget	Variance Over (Under)
Cash Receipts			
County Appropriation	$ 330,500.00	$ 331,000.00	$ (500.00)
Federal	328,782.83	317,361.00	11,421.83
State of Kansas	121,670.32	153,343.00	(31,672.68)
Cities	35,090.00	34,540.00	550.00
Fees and Donations	206,740.45	241,183.00	(34,442.55)
Interest	2,104.14	3,950.00	(1,845.86)
Other	9,534.13	-	9,534.13
Total Cash Receipts	$ 1,034,421.87	$ 1,081,377.00	$ (46,955.13)
Expenditures			
Salaries	$ 560,275.93	$ 578,434.00	$ 18,158.07
Employee Benefits	241,320.96	239,485.00	(1,835.96)
Mileage and Meals	28,383.95	35,711.00	7,327.05
Rent Expense	18,065.00	18,001.00	(64.00)
Utilities and Telephone	15,907.75	16,430.00	522.25
Medical Supplies	65,245.89	59,250.00	(5,995.89)
Office Supplies	16,973.29	22,921.00	5,947.71
Client Supplies	9,587.21	1,250.00	(8,337.21)
Postage	4,046.76	4,779.00	732.24
Advertising	5,074.44	8,690.00	3,615.56
Contractual Services	38,044.63	18,700.00	(19,344.63)
Capital Outlay	1,704.15	-	(1,704.15)
Maintenance and Cleaning Services	17,200.48	17,250.00	49.52
Business Insurance	8,368.89	13,460.00	5,091.11
MIS Maintenance	10,779.30	12,608.00	1,828.70
Other Operating Expense	37,550.59	34,408.00	(3,142.59)
Contingency Fund	2,898.28	-	(2,898.28)
Total Expenditures	$ 1,081,427.50	$ 1,081,377.00	$ (50.50)
Receipts Over (Under) Expenditures	$ (47,005.63)		
Unencumbered Cash Beginning of Year	261,913.37		
Unencumbered Cash End of Year	$ 214,907.74		

See Independent Auditors' report.