SOUTHEAST KANSAS MULTI-COUNTY HEALTH DEPARTMENT

Independent Auditors’ Report and
Financial Statement with
Supplementary Information

For the Year Ended December 31, 2014
<table>
<thead>
<tr>
<th>TABLE OF CONTENTS</th>
<th>PAGE NUMBERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Auditors’ Report</td>
<td>1-2</td>
</tr>
<tr>
<td>Statement 1</td>
<td>3</td>
</tr>
<tr>
<td>Summary Statement of Receipts, Expenditures, and Unencumbered Cash – Regulatory Basis</td>
<td></td>
</tr>
<tr>
<td>Notes to Financial Statement</td>
<td>4-8</td>
</tr>
<tr>
<td>SUPPLEMENTARY INFORMATION</td>
<td></td>
</tr>
<tr>
<td>Schedule 1</td>
<td>9</td>
</tr>
<tr>
<td>Schedule of Receipts and Expenditures – Actual and Budget Regulatory Basis - (with Comparative Actual Totals for the Prior Year) Operating Fund</td>
<td></td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITORS’ REPORT

Board of Directors
Southeast Kansas Multi-
County Health Department
Iola, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Southeast Kansas Multi-County Health Department, a municipality, as of and for the year ended December 31, 2014, 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 1 to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. 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 the 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 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 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 statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles
As described in Note 1 of the financial statement, the financial statement is prepared by Southeast Kansas Multi-County Health Department to meet the requirements of the State of Kansas on the basis of the 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 the regulatory basis of accounting described in Note 1 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 Southeast Kansas Multi-County Health Department as of December 31, 2014, or changes in financial position and cash flows thereof for the year then ended.

**Opinion on 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 Southeast Kansas Multi-County Health Department as of December 31, 2014, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

**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 individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedule 1 as listed in the table of contents) is presented for analysis and are not a required part of the basic financial statement, however, is 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 to 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 1.

JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants

July 6, 2015
Chanute, Kansas
Statement 1

SOUTHEAST KANSAS MULTI-COUNTY HEALTH DEPARTMENT
Iola, Kansas
Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended December 31, 2014

<table>
<thead>
<tr>
<th>Funds</th>
<th>Beginning Cash Balance</th>
<th>Receipts</th>
<th>Expenditures</th>
<th>Ending Cash Balance</th>
<th>Add Encumbrances and Accounts Payable</th>
<th>Ending Cash Balance 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td>$ 629,794.99</td>
<td>$ 702,042.04</td>
<td>$ 867,388.51</td>
<td>$ 464,448.52</td>
<td>$ 22,545.34</td>
<td>$ 486,993.86</td>
</tr>
<tr>
<td>Total Reporting Entity</td>
<td>$ 629,794.99</td>
<td>$ 702,042.04</td>
<td>$ 867,388.51</td>
<td>$ 464,448.52</td>
<td>$ 22,545.34</td>
<td>$ 486,993.86</td>
</tr>
</tbody>
</table>

Composition of Cash:
- Cash on Hand: $200.00
- Checking Account: $22,545.31
- Savings Account: $266,180.59
- Certificates of Deposit: $198,067.96

Total Cash and Investments: $486,993.86

The notes to the financial statement are an integral part of this statement.
1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The financial statement and schedules of the Southeast Kansas Multi-County Health Department, have been prepared in order to show compliance with the cash basis and budget laws of the State of Kansas. The Governmental Accounting Standards Board is the principal standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Department’s accounting policies follow. Note 1 describes how the Department’s accounting policies differ from accounting policies generally accepted in the United States of America.

Financial Reporting Entity
The Southeast Kansas Multi-County Health Department (the Department) is a governmental organization established in November 1971, pursuant to K.S.A. 65-205 to serve the public health and sanitation needs of the counties of Allen, Anderson, Bourbon, and Woodson, Kansas.

The Southeast Kansas Multi-County Health Department, is a municipal corporation governed by a twelve members and one at large medical director. Each participating county appoints 3 members with the board appointing the medical director.

Related Municipal Entities: A related municipal entity is determined by the following criteria. Whether the Department exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of the public service, and significant operational or financial relationships with the Department. Related municipal entities are not required to be included in the Department’s audit by the Kansas Municipal Audit and Accounting Guide (KMAAG).

The Department has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a related municipal entity in this financial statement.

Regulatory Basis Fund Types
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 types of funds comprise the financial activities of the Southeast Kansas Multi-County Health Department, for the year of 2014:

Operating fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.
1. **SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES** (Continued)

   **Basis of Accounting**
   *Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America.* The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance 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 receipts 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 municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the regulatory basis of accounting.

   **Reimbursed Expenses**
   K.S.A. 79-2934 provides that reimbursed expenditures, in excess of those budgeted, should be recorded as reductions in expenditures rather than as receipts. In the financial statements and budget schedules comparisons presented in this report, reimbursements and refunds are recorded as receipts. The reimbursements are recorded as cash receipts when received by the City Treasurer and are often difficult to identify the exact expenditure which they are reimbursing. In funds showing expenditures in excess of the original adopted budget, reimbursements are added to the adopted budget as budget credits for comparison with the actual expenditures.

   **Pension Plan**
   Substantially all full-time Department employees are members of the State of Kansas Public Employees Retirement System, which is a multi-employer state-wide pension plan. The Department’s policy is to fund all pension costs accrued. Such costs to be funded are actuarially determined annually by the State of Kansas.

   **Budgetary Information**
   The Department is not subject to the Kansas Budget Law, as they are not the primary taxing authority for the Department. The counties of Allen, Anderson, Bourbon, and Woodson holds the taxing authority for the Department. The Department adopts an annual budget for the Operations Fund for managerial purposes. The budget comparison on Schedule 1 reflects this internal managerial budget.

2. **STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

   **Compliance with Kansas Statutes**
   Statement 1 has been prepared in order to show compliance with the cash basis laws of Kansas. As shown in Statement 1, the Department was in apparent compliance with the Kansas cash basis laws.
3. **DEPOSITS AND INVESTMENTS**

K.S.A 9-1401 establishes the depositories which may be used by the Department. The statute requires banks eligible to hold the Department's funds have a main branch or branch bank in the county in which the Department 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 Department has no other policies that would further limit interest rate risk.

K.S.A 12-1675 limits the Department’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 Department has no investment policy that would further limit its investment choices.

*Concentration of credit risk.* State statutes place no limit on the amount the Department 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 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 issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were not secured at December 31, 2014.

At year-end, the Department’s carrying amount of deposits was $486,793.86 and the bank balance was $490,538.06. The bank balance was held by four banks resulting in a concentration of credit risk. Of the bank balance, $457,764.96 was covered by FDIC insurance, and $32,773.10 was collateralized with securities held by the pledging financial institution's agents in the Department's name.

4. **DEFINED BENEFIT PENSION PLAN**

*Plan description.* The Department participates in the Kansas Public Employees Retirement System (KPERS). A cost-sharing, multiple-employer defined benefit pension plan as provided by Kansas law. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issue a publicly available financial report (only one is issued) that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) 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 5% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. 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 employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The Department’s employer contribution to KPERS for the year ending December 31, 2014 was $28,994.12 equal to the statutory required contributions for the year.
5. OTHER LONG-TERM OBLIGATIONS FROM OPERATIONS

Compensated Absences:
Regular employees earn and accumulate vacation leave from the beginning of employment. The maximum number of vacation days which can be accumulated by employees is based upon number of years of full-time service and varies from 15-20 days.

Regular employees earn and accumulate sick leave from the beginning of employment at the rate of 1 day per month, pro-rated for part-time. Sick leave may be accumulated to a maximum of 50 days. Any unused sick leave above 50 days is lost. Sick leave is not paid to terminated employees, however upon retirement and employee may be paid for up to 30% of accumulated sick leave.

The Department accrues a liability for compensated absences which meet the following criteria:

1. The Department’s obligation relating to employees’ rights to receive compensation for future absences is attributable to employees’ services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated and is material to the financial statement.

In accordance with the above criteria, the Department has estimated a liability for vacation pay of $9,890.98, and not accrued a liability for sick pay which has been earned, but not taken by Department employees, inasmuch as the amount cannot be reasonably estimated.

Other Post Employment Benefits:
As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the Department is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy has not been quantified in this financial statement.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Department 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. There is no cost to the Department under this program.

6. ECONOMIC DEPENDENCY

During 2014, the Department collected 36.91% of its receipts from the Kansas Department of Health and Environment in the form of grants. If those funds were not available, it could have an adverse effect of the operations of the Department.

7. RISK MANAGEMENT

The Department is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees’ health and life; and natural disasters. The Department manages these risks of loss through the purchase of various insurance policies.
8. SUBSEQUENT EVENTS

The Department evaluated events and transactions occurring subsequent year end, and there were no subsequent events requiring recognition in the financial statement. Additionally, there were no nonrecognized subsequent events requiring disclosure.
<table>
<thead>
<tr>
<th>Receipts</th>
<th>Current Year</th>
<th>Variance - Over (Under)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Budget</td>
</tr>
<tr>
<td><strong>Taxes and Shared Receipts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>County Mill Levy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allen County                         $ 94,217.00   $ 84,484.00 $ 9,733.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anderson County                      $ 67,923.99   $ 67,238.00 685.99</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bourbon County                       $ 80,750.00   $ 80,538.00  212.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Woodson County                       $ 28,000.00   $ 27,725.00  275.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Charges for Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patient Revenues                     $ 144,262.51 $ 170,900.00 (26,637.49)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intergovernmental</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Grants                         $ 259,173.93 $ 243,157.00 16,016.93</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Use of Money and Property</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest Income                      $ 3,136.88     -                      3,136.88</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Receipts</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation Grants                    $ 18,750.00   $ 18,750.00     -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous                        $ 5,827.73     -                      5,827.73</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Receipts</strong></td>
<td>$ 702,042.04</td>
<td>$ 692,792.00</td>
</tr>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Services                    $ 466,481.80   $ 465,716.01 $ 765.79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contractual Services                 $ 127,825.58   $ 115,142.50  12,683.08</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commodities                          $ 104,211.91   $ 87,933.49  16,278.42</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Outlay                       $ 168,869.22   $ 24,000.00  144,869.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$ 867,388.51</td>
<td>$ 692,792.00</td>
</tr>
<tr>
<td><strong>Receipts Over(Under) Expenditures</strong></td>
<td>(165,346.47)</td>
<td></td>
</tr>
<tr>
<td><strong>Unencumbered Cash, Beginning</strong></td>
<td>$ 629,794.99</td>
<td></td>
</tr>
<tr>
<td><strong>Unencumbered Cash, Ending</strong></td>
<td>$ 464,448.52</td>
<td></td>
</tr>
</tbody>
</table>
In planning and performing our audit of the financial statement of Southeast Kansas Multi-County Health Department as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Southeast Kansas Multi-County Health Department’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Southeast Kansas Multi-County Health Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Southeast Kansas Multi-County Health Department’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in Southeast Kansas Multi-County Health Department’s internal control to be material weaknesses:

**Segregation of Duties**
Due to the small staff size of the Department, weakness in internal control results from the Department personnel performing billings, receipting cash, making deposits, and having access to all books and records of the Department.

We noted no misappropriation or evidence of wrong doing, but believe the lack of controls should be reported to you. We would remind the Board of Directors responsible for approval and the signing of checks to be diligent in his/her responsibilities. All disbursements approved should have original invoices attached, including credit card charges, and should be thoroughly reviewed before approval.

**Cash Disbursements**
During our testing of Department credit cards and charge accounts, we identified some charges on the Visa card which did not contain adequate supporting documentation. We would like to point out that all disbursements of the Department should be supported by a written claim against the Department and the Department charge cards and accounts should not be used for personal use. Unsupported disbursements could be cause for unallowable expenses under
current Kansas statutes. It was noted the Department was paying some of their credit card from a statement, and did not have adequate support for all charges on the statement. While the unsupported charges appeared to be for legitimate Department expenses, the Department is approving and paying bills without all the supporting documentation we feel is necessary.

We would also recommend the Department implement policies and procedures for credit card use and travel to help staff understand when and what the credit card can be used for.

Sound internal control policies require that an invoice be cancelled after being paid by marking on the invoice that it is paid, the date paid, and the check number paying the invoice. In the event that the invoice should become detached from the check, duplicate payment of an invoice may be avoided. During our test of cash disbursements, we noted that invoices were not being cancelled properly.

Bank Reconciliation
Bank reconciliations should be done timely at month end, not only to tie out to the general ledger, but for the internal control purposes. We suggest that another person review the bank reconciliation, other than the preparer, and initial and date the reconciliation as evidence of review and to be assured that it has been done timely. This person should be someone above the level of the preparer in the organizational chart. During times of absence or vacation, another person should be rotated to perform these duties.

Commercial Crime and/or Bonding
During a review of insurance policies, it was noted the Department does not have a commercial crime insurance policy or bonding for staff. Commercial crime policies are inexpensive and will cover the Department in the event of a fraud or defalcation.

Cash Receipts
A weakness in internal control occurs when the persons doing the accounts receivable billings and write-offs also receive the payments on account, post the amounts received, and make the bank deposit. It is understandable that these persons need to post the receipts to the accounts receivable system, since they know which account the posting should be credited and it is very complex. However, internal control could be strengthened by having the person receiving the mail make a list of cash received, and give this list to the person posting the daily accounts receivable summary to the general ledger. This list could be compared to the daily accounts receivable report generated and to a copy of the bank deposit to be sure that all cash received was deposited timely and intact. This comparison should be done on a daily basis and initialed and dated as evidence of review, even though the entry to the general ledger may not be made until month’s end.

This communication is intended solely for the information and use of management, Board of Directors, and others within the Department, and is not intended to be, and should not be, used by anyone other than these specified parties.

JARRED, GILMORE & PHILLIPS, PA
Certified Public Accountants
Chanute, Kansas
July 6, 2015