

**SPEARVILLE HOSPITAL DISTRICT**

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**FINANCIAL STATEMENTS  
and  
REQUIRED SUPPLEMENTARY INFORMATION  
with  
INDEPENDENT AUDITOR'S REPORT  
YEARS ENDED DECEMBER 31, 2019 AND 2018**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Spearville Hospital District  
Spearville, Kansas

We have audited the accompanying financial statements of the business-type activities of the Spearville Hospital District as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Spearville Hospital District's 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 the business-type activities of the Spearville Hospital District as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Management 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.

Accounting principles generally accepted in the United States of America also require that the comparison of revenues and expenses (statutory basis) and the budgetary comparison statement – budget to GAAP reconciliation information on pages 11 and 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Kennedy McKee & Company LLP*

June 5, 2020

# SPEARVILLE HOSPITAL DISTRICT

## STATEMENTS OF NET POSITION

	December 31,	
	2019	2018
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 270,066	\$ 197,150
Certificates of deposit	53,244	53,244
Property taxes receivable	177,648	159,375
Other receivables	3,469	3,638
Inventory	4,713	3,412
Prepaid expenses	5,577	5,104
Total current assets	514,717	421,923
Noncurrent assets:		
Capital assets:		
Property, plant and equipment, net	239,266	281,923
Total assets	\$ 753,983	\$ 703,846
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		
Current liabilities:		
Accounts payable	\$ 19,998	\$ 20,431
Accrued expenses	8,225	8,226
Total current liabilities	28,223	28,657
Deferred inflows of resources	263,403	256,045
<b>NET POSITION</b>		
Net investment in capital assets	239,266	281,923
Unrestricted	223,091	137,221
Total net position	462,357	419,144
Total liabilities, deferred inflows of resources, and net position	\$ 753,983	\$ 703,846

The accompanying notes are an integral part of the financial statements.

## SPEARVILLE HOSPITAL DISTRICT

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year ended December 31,	
	2019	2018
Operating revenues:		
Net resident service revenue	\$ 121,576	\$ 118,849
Clinic revenues	1,726	18,873
Friendship meals	41,858	45,234
Miscellaneous	7,025	1,449
Total operating revenues	172,185	184,405
Operating expenses:		
Payroll	122,378	122,055
Payroll taxes	9,402	9,277
Employee health insurance	13,124	12,464
Repairs and maintenance	27,580	36,418
Clinic expenses	53,094	107,526
Friendship meals expense	38,218	37,317
Utilities	44,363	46,980
Insurance	19,101	17,865
Office supplies and expenses	3,351	2,640
Professional services	10,596	9,822
Depreciation	54,879	55,416
Miscellaneous expense	3,636	5,284
Total operating expenses	399,722	463,064
Operating income (loss)	(227,537)	(278,659)
Nonoperating revenues (expenses):		
Property taxes	268,944	261,145
Interest income	255	253
Noncapital grants and gifts	1,617	1,480
Gain (loss) on disposal of assets	(66)	-
Total nonoperating revenue	270,750	262,878
Change in net position	43,213	(15,781)
Net position, beginning of year	419,144	434,925
Net position, end of year	\$ 462,357	\$ 419,144

The accompanying notes are an integral part of the financial statements.

# SPEARVILLE HOSPITAL DISTRICT

## STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2019	2018
Cash flows from operating activities:		
Receipts from and on behalf of residents and patients	\$ 123,302	\$ 137,722
Receipts from meals	42,027	48,980
Payments to suppliers and contractors	(215,270)	(296,179)
Payments to employees	(131,781)	(130,006)
Other receipts, net	7,025	1,449
Net cash provided (used) by operating activities	(174,697)	(238,034)
Cash flows from noncapital financing activities:		
Property taxes supporting operations	258,029	295,104
Noncapital grants and gifts	1,617	1,480
Net cash provided (used) by noncapital financing activities	259,646	296,584
Cash flows from capital and related financing activities:		
Purchase of capital assets	(12,288)	(39,170)
Cash flows from investing activities:		
Interest income	255	253
Net increase (decrease) in cash and cash equivalents	72,916	19,633
Cash and cash equivalents, January 1	197,150	177,517
Cash and cash equivalents, December 31	\$ 270,066	\$ 197,150
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating loss	\$ (227,537)	\$ (278,659)
Depreciation	54,879	55,416
Changes in operating assets and liabilities:		
Other receivables	169	3,746
Inventory	(1,301)	245
Prepaid expenses	(473)	185
Accounts payable	(433)	(20,293)
Accrued expenses	(1)	1,326
Net cash provided (used) by operating activities	\$ (174,697)	\$ (238,034)

The accompanying notes are an integral part of the financial statements.

**SPEARVILLE HOSPITAL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2019 and 2018

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. Nature of operations**

The Spearville Hospital District (the District) is operated by a Board of Directors elected by the qualified voters of the District. The District was organized to provide services for the benefit of the residents in and around Ford County. The District primarily earns revenue by providing self-care apartments and senior meals. Additionally, basic medical services are provided at the District's clinic through a contract with the Edwards County Medical Center.

**2. Basis of accounting**

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows/outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Property taxes and investment income are included in nonoperating revenues and expenses.

**3. 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 deferred inflows/outflows of resources 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.

**4. Cash equivalents**

The District considers all liquid investments with original maturities of three months or less to be cash equivalents.

**5. Property taxes**

The District received approximately 61% and 58% of its financial support from property taxes in 2019 and 2018, respectively. One hundred percent of these funds were used to support operations.

Property taxes are assessed in November and are received beginning in January of the following year. Revenue from property taxes is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted.



## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 6. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted (unless specifically exempted by statute). Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- a. Preparation of the budget for the succeeding calendar year on or before August 1st.
- b. Publication in a local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
- d. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in regulatory receipts other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held, and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which regulatory receipts are recognized when cash is received, and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

### 7. 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; and employee health 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.

### 8. Receivables

All receivables are reported net of estimated uncollectible amounts.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Inventory

Inventory is stated at the lower of cost, determined using the first-in, first-out method, or market.

10. Capital assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land improvements	10 - 15 years
Buildings	5 - 40 years
Major moveable equipment	5 - 20 years

11. Compensated absences

The District's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the Statement of Net Position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

12. Deferred inflows of resources

The District's Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). Revenue from property taxes is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted. Accordingly, unavailable revenues from property taxes are reported in the Statement of Net Position.

13. Net position

Net position of the District is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. Income taxes

As an essential government entity, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

B. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law but are offered for consideration of the Director of Accounts and Reports, the Kansas Department of Administration, and legal representatives of the District.

K.S.A. 9-1402 requires the District'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. The statute further requires that the collateral is bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or 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. At year end, the collateral used to secure deposits did not meet the above requirements.

C. DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District'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 or 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, 2019, the District's carrying amount of deposits was \$323,195 and the bank balance was \$325,796. Of the bank balance, \$304,141 was covered by federal depository insurance and \$21,655 was collateralized with securities that did not meet the requirements of K.S.A. 9-1402 held by the pledging financial institutions' agents in the District's name.

D. CAPITAL ASSETS

	Balance January 1, 2019	Additions	Deletions	Balance December 31, 2019
Land and land improvements	\$ 50,071	\$ -	\$ -	\$ 50,071
Buildings	1,632,020	3,542	-	1,635,562
Major moveable equipment	<u>343,535</u>	<u>8,746</u>	<u>9,970</u>	<u>342,311</u>
	<u>2,025,626</u>	<u>12,288</u>	<u>9,970</u>	<u>2,027,944</u>
Less accumulated depreciation				
Land improvements	35,047	619	-	35,666
Buildings	1,443,127	39,703	-	1,482,830
Major moveable equipment	<u>265,529</u>	<u>14,557</u>	<u>9,904</u>	<u>270,182</u>
	<u>1,743,703</u>	<u>54,879</u>	<u>9,904</u>	<u>1,788,678</u>
Capital assets, net	<u>\$ 281,923</u>	<u>\$ (42,591)</u>	<u>\$ 66</u>	<u>\$ 239,266</u>

#### D. CAPITAL ASSETS (CONTINUED)

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
Land and land improvements	\$ 40,786	\$ 9,285	\$ -	\$ 50,071
Buildings	1,624,909	7,111	-	1,632,020
Major moveable equipment	<u>329,961</u>	<u>22,774</u>	<u>9,200</u>	<u>343,535</u>
	<u>1,995,656</u>	<u>39,170</u>	<u>9,200</u>	<u>2,025,626</u>
Less accumulated depreciation				
Land improvements	34,686	361	-	35,047
Buildings	1,402,130	40,997	-	1,443,127
Major moveable equipment	<u>260,671</u>	<u>14,058</u>	<u>9,200</u>	<u>265,529</u>
	<u>1,697,487</u>	<u>55,416</u>	<u>9,200</u>	<u>1,743,703</u>
Capital assets, net	<u>\$ 298,169</u>	<u>\$ (16,246)</u>	<u>\$ -</u>	<u>\$ 281,923</u>

#### E. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 5, 2020, the date on which the financial statements were available to be used. Management's evaluation concluded that the following subsequent events are required to be recognized or disclosed in these financial statements:

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the pandemic. Therefore, the District expects this matter to negatively impact its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## SPEARVILLE HOSPITAL DISTRICT

### COMPARISON OF REVENUES AND EXPENSES (STATUTORY BASIS) ACTUAL AND BUDGET

Year ended December 31, 2019

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget positive (negative)
	Original	Final		
Budgetary fund balance, beginning of year	\$ 124,922	\$ 124,922	\$ 221,737	\$ 96,815
Resources (inflows):				
Taxes	266,478	266,478	258,029	(8,449)
Net resident service revenue	85,000	85,000	121,576	36,576
Friendship meals	35,000	35,000	42,027	7,027
Clinic revenues	-	-	1,726	1,726
Investment earnings	100	100	255	155
Noncapital grants	-	-	1,617	1,617
Miscellaneous	-	-	7,025	7,025
	<u>511,500</u>	<u>511,500</u>	<u>653,992</u>	<u>142,492</u>
Amounts available for appropriation				
Charges to appropriations (outflows):				
Salaries and benefits	167,500	167,500	144,904	22,596
Utilities and phone	50,000	50,000	44,363	5,637
Professional services	12,000	12,000	10,596	1,404
Advertising	2,000	2,000	572	1,428
Supplies, repairs and maintenance	75,000	75,000	73,987	1,013
Insurance	25,000	25,000	19,101	5,899
Clinic expense	120,000	120,000	53,094	66,906
Capital outlay	60,000	60,000	12,288	47,712
	<u>511,500</u>	<u>511,500</u>	<u>358,905</u>	<u>152,595</u>
Total charges to appropriations				
Budgetary fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 295,087</u>	<u>\$ 295,087</u>

# SPEARVILLE HOSPITAL DISTRICT

## BUDGETARY COMPARISON STATEMENT BUDGET TO GAAP RECONCILIATION

Year ended December 31, 2019

### Sources/inflows of resources:

Actual amounts available for appropriation from the budgetary comparison statement	\$ 653,992
Differences, budget to GAAP:	
The unencumbered cash at the beginning of the year is a budgetary resource, but is not a current year revenue for financial reporting purposes.	(221,737)
Current year property tax and other receivable amounts are not a budgetary resource, but they are revenues for financial reporting purposes.	181,117
Prior year property taxes and other receivable amounts are a budgetary resource, but they are not revenues for financial reporting purposes.	(163,013)
Current year deferred inflows of resources are a budgetary resource, but they are not revenues for financial reporting purposes.	(263,403)
Prior year deferred inflows of resources are not a budgetary resource, but they are revenues for financial reporting purposes.	256,045
Proceeds from the sale of capital assets is a budgetary resource, but only the gains are reported as a revenue for financial reporting purposes.	<u>(66)</u>
Total revenues and nonoperating revenues as reported on the statements of revenues, expenses and changes in net position	<u><u>\$ 442,935</u></u>

### Uses/outflows of resources:

Actual amounts of charges to appropriations from the budgetary comparison statement	\$ 358,905
Differences, budget to GAAP:	
Depreciation expense is an expense for financial reporting but not for budgetary purposes.	54,879
Prepaid expenses are budgetary outflows but are deferred and reported as an expense as the benefit is utilized.	(473)
Capital asset purchases are budgetary outflows but are capitalized and depreciated over a specified class life for financial reporting purposes.	(12,288)
Inventory purchases are included as a budgetary outflow, but are reported as an expense when the inventory is sold for financial reporting purposes.	<u>(1,301)</u>
Total operating expenses as reported on the statements of revenues, expenses and changes in net position	<u><u>\$ 399,722</u></u>