

SPEARVILLE HOSPITAL DISTRICT

**FINANCIAL STATEMENTS
and
REQUIRED SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED DECEMBER 31, 2021 AND 2020**

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Kennedy
McKee & Company LLP Certified Public Accountants

1100 W. Frontview
P. O. Box 1477
Dodge City, Kansas 67801
Tel. (620) 227-3135
Fax (620) 227-2308
www.kmc-cpa.com

JAMES W. KENNEDY, CPA
PATRICK M. FRIESS, CPA
JOHN W. HENDRICKSON, CPA
JEREMY J. APPEL, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Spearville Hospital District
Spearville, Kansas

Opinions

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, 2021 and 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Spearville Hospital District, as of December 31, 2021 and 2020, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Spearville Hospital District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Spearville Hospital District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Spearville Hospital District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Spearville Hospital District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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) - actual and budget and the budgetary comparison statement – budget to GAAP reconciliation information on pages 12 and 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 3, 2022

SPEARVILLE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

	December 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 274,888	\$ 254,515
Certificates of deposit	54,684	54,684
Property taxes receivable	275,393	271,645
Other receivables	3,584	3,658
Inventory	7,074	5,515
Prepaid expenses	6,521	5,737
Total current assets	622,144	595,754
Noncurrent assets:		
Capital assets:		
Property, plant and equipment, net	221,573	216,178
Total assets	<u>\$ 843,717</u>	<u>\$ 811,932</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Current liabilities:		
Accounts payable	\$ 17,170	\$ 10,761
Accrued expenses	5,426	11,427
Total current liabilities	22,596	22,188
Deferred inflows of resources	275,393	271,645
NET POSITION		
Net investment in capital assets	221,573	216,178
Unrestricted	324,155	301,921
Total net position	545,728	518,099
Total liabilities, deferred inflows of resources, and net position	<u>\$ 843,717</u>	<u>\$ 811,932</u>

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,	
	2021	2020
Operating revenues:		
Net resident service revenue	\$ 116,763	\$ 119,565
Clinic revenues	490	6,992
Friendship meals	42,273	44,356
Miscellaneous	2,690	3,095
Total operating revenues	162,216	174,008
Operating expenses:		
Payroll	145,380	133,596
Payroll taxes	11,951	9,853
Employee health insurance	23,615	14,813
Repairs and maintenance	26,325	17,938
Clinic expenses	38,090	35,976
Friendship meals expense	43,627	39,938
Utilities	56,297	49,204
Insurance	22,363	20,065
Office supplies and expenses	4,082	2,096
Professional services	9,356	9,606
Depreciation	35,169	53,741
Miscellaneous expense	3,631	7,933
Total operating expenses	419,886	394,759
Operating income (loss)	(257,670)	(220,751)
Nonoperating revenues (expenses):		
Property taxes	285,081	276,582
Interest income	188	1,723
Noncapital grants and gifts	30	330
Gain (loss) on disposal of assets	-	(2,142)
Total nonoperating revenue	285,299	276,493
Change in net position	27,629	55,742
Net position, beginning of year	518,099	462,357
Net position, end of year	\$ 545,728	\$ 518,099

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

SPEARVILLE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2021	2020
Cash flows from operating activities:		
Receipts from and on behalf of residents and patients	\$ 117,253	\$ 126,557
Receipts from meals	42,347	44,167
Payments to suppliers and contractors	(223,320)	(207,768)
Payments to employees	(163,332)	(140,247)
Other receipts, net	2,690	3,095
Net cash provided (used) by operating activities	<u>(224,362)</u>	<u>(174,196)</u>
Cash flows from noncapital financing activities:		
Property taxes supporting operations	285,081	190,827
Noncapital grants and gifts	30	330
Net cash provided (used) by noncapital financing activities	<u>285,111</u>	<u>191,157</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(40,564)</u>	<u>(32,795)</u>
Cash flows from investing activities:		
Interest income	<u>188</u>	<u>283</u>
Net increase (decrease) in cash and cash equivalents	20,373	(15,551)
Cash and cash equivalents, January 1	<u>254,515</u>	<u>270,066</u>
Cash and cash equivalents, December 31	<u><u>\$ 274,888</u></u>	<u><u>\$ 254,515</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating loss	\$ (257,670)	\$ (220,751)
Depreciation	35,169	53,741
Changes in operating assets and liabilities:		
Other receivables	74	(189)
Inventory	(1,559)	(802)
Prepaid expenses	(784)	(160)
Accounts payable	6,409	(9,237)
Accrued expenses	(6,001)	3,202
Net cash provided (used) by operating activities	<u><u>\$ (224,362)</u></u>	<u><u>\$ (174,196)</u></u>

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

SPEARVILLE HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 64% and 61% of its financial support from property taxes in 2021 and 2020, 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.

If the municipality is holding a revenue neutral rate hearing, the budget timeline for adoption of the final budget has been adjusted to on or before September 20th. The municipality did not hold a revenue neutral rate hearing for this year.

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 Statements 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 Statements 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 Statements 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. 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 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, 2021, the District's carrying amount of deposits was \$329,457 and the bank balance was \$331,234. Of the bank balance, \$304,875 was covered by federal depository insurance and \$26,359 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.

C. CAPITAL ASSETS

	Balance January 1, 2021	Additions	Deletions	Balance December 31, 2021
Land and land improvements	\$ 50,071	\$ 5,471	\$ -	\$ 55,542
Buildings	1,635,562	2,503	-	1,638,065
Major moveable equipment	368,653	32,590	14,337	386,906
	<u>2,054,286</u>	<u>40,564</u>	<u>14,337</u>	<u>2,080,513</u>
Less accumulated depreciation				
Land improvements	36,285	893	-	37,178
Buildings	1,521,989	20,396	-	1,542,385
Major moveable equipment	279,834	13,880	14,337	279,377
	<u>1,838,108</u>	<u>35,169</u>	<u>14,337</u>	<u>1,858,940</u>
Capital assets, net	<u>\$ 216,178</u>	<u>\$ 5,395</u>	<u>\$ -</u>	<u>\$ 221,573</u>

	Balance January 1, 2020	Additions	Deletions	Balance December 31, 2020
Land and land improvements	\$ 50,071	\$ -	\$ -	\$ 50,071
Buildings	1,635,562	-	-	1,635,562
Major moveable equipment	342,311	32,795	6,453	368,653
	<u>2,027,944</u>	<u>32,795</u>	<u>6,453</u>	<u>2,054,286</u>
Less accumulated depreciation				
Land improvements	35,666	619	-	36,285
Buildings	1,482,830	39,159	-	1,521,989
Major moveable equipment	270,182	13,963	4,311	279,834
	<u>1,788,678</u>	<u>53,741</u>	<u>4,311</u>	<u>1,838,108</u>
Capital assets, net	<u>\$ 239,266</u>	<u>\$ (20,946)</u>	<u>\$ 2,142</u>	<u>\$ 216,178</u>

D. CORONAVIRUS (COVID-19)

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District’s financial condition, liquidity, and future result of operations. The Board is actively monitoring the global and local situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the District is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2022.

E. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 3, 2022, the date on which the financial statements were available to be used. Management’s evaluation concluded there are no subsequent events that are required to be recognized or disclosed in this financial statement except for the ongoing concern regarding the novel strain of coronavirus (COVID-19) as discussed in Note D above.

REQUIRED SUPPLEMENTARY INFORMATION

SPEARVILLE HOSPITAL DISTRICT

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

Year ended December 31, 2021

	Budgeted amounts		Actual amounts	Variance with
	Original	Final	(budgetary basis)	final budget positive (negative)
Budgetary fund balance, beginning of year	\$ 243,126	\$ 243,126	\$ 287,011	\$ 43,885
Resources (inflows):				
Taxes	278,924	278,924	285,081	6,157
Net resident service revenue	90,000	90,000	116,763	26,763
Friendship meals	35,000	35,000	42,347	7,347
Clinic revenues	-	-	490	490
Investment earnings	50	50	188	138
Noncapital grants	-	-	30	30
Miscellaneous	500	500	2,690	2,190
Amounts available for appropriation	647,600	647,600	734,600	87,000
Charges to appropriations (outflows):				
Salaries and benefits	180,000	180,000	180,946	(946)
Utilities and phone	60,000	60,000	56,297	3,703
Professional services	13,000	13,000	9,356	3,644
Advertising	2,000	2,000	1,086	914
Supplies, repairs and maintenance	90,000	90,000	78,922	11,078
Insurance	25,000	25,000	22,363	2,637
Clinic expense	45,000	45,000	38,090	6,910
Capital outlay	232,600	232,600	40,564	192,036
Total charges to appropriations	647,600	647,600	427,624	219,976
Budgetary fund balance, end of year	\$ -	\$ -	\$ 306,976	\$ 306,976

SPEARVILLE HOSPITAL DISTRICT

BUDGETARY COMPARISON STATEMENT BUDGET TO GAAP RECONCILIATION

Year ended December 31, 2021

Sources/inflows of resources:

Actual amounts available for appropriation from the budgetary comparison statement	\$ 734,600
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.	(287,011)
Current year property tax and other receivable amounts are not a budgetary resource, but they are revenues for financial reporting purposes.	278,977
Prior year property taxes and other receivable amounts are a budgetary resource, but they are not revenues for financial reporting purposes.	(275,303)
Current year deferred inflows of resources are a budgetary resource, but they are not revenues for financial reporting purposes.	(275,393)
Prior year deferred inflows of resources are not a budgetary resource, but they are revenues for financial reporting purposes.	<u>271,645</u>
Total revenues and nonoperating revenues as reported on the statements of revenues, expenses and changes in net position	<u><u>\$ 447,515</u></u>

Uses/outflows of resources:

Actual amounts of charges to appropriations from the budgetary comparison statement	\$ 427,624
Differences, budget to GAAP:	
Depreciation expense is an expense for financial reporting but not for budgetary purposes.	35,169
Prepaid expenses are budgetary outflows but are deferred and reported as an expense as the benefit is utilized.	(784)
Capital asset purchases are budgetary outflows but are capitalized and depreciated over a specified class life for financial reporting purposes.	(40,564)
Inventory purchases are included as a budgetary outflow, but are reported as an expense when the inventory is sold for financial reporting purposes.	<u>(1,559)</u>
Total operating expenses as reported on the statements of revenues, expenses and changes in net position	<u><u>\$ 419,886</u></u>