

Spearville Hospital District

Accountants' Report and Financial Statements

December 31, 2009 and 2008

Spearville Hospital District
December 31, 2009 and 2008

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Spearville Hospital District
Spearville, Kansas

We have audited the accompanying balance sheets of Spearville Hospital District as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. 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 Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spearville Hospital District as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The District has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audits were conducted for the purpose of forming an opinion on the District's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

June 15, 2010

Spearville Hospital District

Balance Sheets

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 164,538	\$ 210,803
Short-term certificate of deposit	26,463	25,906
Property taxes receivable	144,874	130,979
Other receivables	-	4,861
Supplies	2,835	2,835
Prepaid expenses and other	11,082	10,748
	<u>349,792</u>	<u>386,132</u>
Capital Assets, Net	<u>433,193</u>	<u>385,985</u>
Total assets	<u>\$ 782,985</u>	<u>\$ 772,117</u>
	<u>2009</u>	<u>2008</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 14,514	\$ 14,553
Accrued expenses	6,655	7,519
Deferred property tax revenue	133,232	130,979
	<u>154,401</u>	<u>153,051</u>
Net Assets		
Invested in capital assets	433,193	385,985
Unrestricted	195,391	233,081
	<u>628,584</u>	<u>619,066</u>
Total liabilities and net assets	<u>\$ 782,985</u>	<u>\$ 772,117</u>

Spearville Hospital District
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Net resident service revenue	\$ 105,376	\$ 111,765
Friendship meals	30,518	33,697
Miscellaneous	<u>11,285</u>	<u>9,647</u>
Total operating revenues	<u>147,179</u>	<u>155,109</u>
Expenses and Losses		
Salaries	89,228	86,868
Social Security taxes	7,406	7,088
Employee health insurance	11,173	10,785
Workers' compensation insurance	2,387	2,182
Clinic supplies and expenses	26,953	16,194
Food	25,913	27,615
Utilities	35,898	44,727
Insurance	15,969	16,021
Other supplies and expense	29,299	34,421
Depreciation	<u>52,238</u>	<u>50,719</u>
Total operating expenses	<u>296,464</u>	<u>296,620</u>
Operating Loss	<u>(149,285)</u>	<u>(141,511)</u>
Nonoperating Revenues		
Property taxes	154,103	148,501
Interest income	4,700	5,905
Contributions	<u>-</u>	<u>600</u>
Total nonoperating revenues	<u>158,803</u>	<u>155,006</u>
Excess of Revenues Over Expenses	9,518	13,495
Net Assets, Beginning of Year	<u>619,066</u>	<u>605,571</u>
Net Assets, End of Year	<u>\$ 628,584</u>	<u>\$ 619,066</u>

Spearville Hospital District
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Activities		
Receipts from and on behalf of residents	\$ 105,376	\$ 111,765
Payments to suppliers and contractors	(132,154)	(140,391)
Payments to employees	(108,448)	(103,454)
Other receipts, net	<u>41,803</u>	<u>43,344</u>
Net cash used in operating activities	<u>(93,423)</u>	<u>(88,736)</u>
Noncapital Financing Activities		
Property taxes supporting operations	<u>142,461</u>	<u>159,582</u>
Net cash provided by noncapital financing activities	<u>142,461</u>	<u>159,582</u>
Capital and Related Financing Activities		
Purchase of capital assets	<u>(99,446)</u>	<u>(38,557)</u>
Net cash used in capital and related financing activities	<u>(99,446)</u>	<u>(38,557)</u>
Investing Activities		
Interest income	4,700	5,905
Net change in short-term certificates of deposit	(557)	(891)
Contributions received	<u>-</u>	<u>600</u>
Net cash provided by investing activities	<u>4,143</u>	<u>5,614</u>
Increase (Decrease) in Cash and Cash Equivalents	(46,265)	37,903
Cash and Cash Equivalents, Beginning of Year	<u>210,803</u>	<u>172,900</u>
Cash and Cash Equivalents, End of Year	<u>\$ 164,538</u>	<u>\$ 210,803</u>
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Used in Operating Activities		
Operating loss	\$ (149,285)	\$ (141,511)
Depreciation	52,238	50,719
Changes in operating assets and liabilities		
Accounts payable and accrued expenses	(903)	6,558
Other assets and liabilities	<u>4,527</u>	<u>(4,502)</u>
Net cash used in operating activities	<u>\$ (93,423)</u>	<u>\$ (88,736)</u>

Spearville Hospital District

Notes to Financial Statements

December 31, 2009 and 2008

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

Nature of Operations

Spearville Hospital District (the District) is operated by a Board of Directors elected by the qualified voters of the Hospital District. The District was organized to provide not-for-profit 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 for residents of the District. Additionally, basic medical services are provided at the District's clinic through a contract with the Hodgeman County Health Center.

Basis of Accounting and Presentation

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 and liabilities 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. The District first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2009 and 2008, cash equivalents consisted primarily of certificates of deposit.

Spearville Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

Property Taxes

In both 2009 and 2008 the District received 48% of its financial support from property taxes. One hundred percent of these funds were used to support operations in both years.

Property taxes are assessed in November and are received beginning in January of the following year. Revenue from property taxes is recognized in the year for which the taxes are levied.

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, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Association of Homes for the Aging. The premiums are subject to retroactive adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported.

Supplies

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

Capital Assets

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

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

Spearville Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

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 balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the District are classified in three components. Net assets invested in capital assets, net of related debt, consist 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. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

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. However, the District is subject to federal income tax on any unrelated business taxable income.

Subsequent Events

Subsequent events have been evaluated through June 15, 2010, which is the date the financial statements were available to be issued.

Spearville Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

Note 2: 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. Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits is currently set to expire December 31, 2009. At December 31, 2009 and 2008, all of the District's bank balances were covered by FDIC insurance.

Summary of Carrying Values

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

	2009	2008
Carrying value		
Deposits	\$ 191,001	\$ 236,709
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 164,538	\$ 210,803
Short-term certificate of deposit	26,463	25,906
	\$ 191,001	\$ 236,709

Spearville Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

Note 3: Capital Assets

Capital assets activity for the years ended December 31, 2009 and 2008, was:

	2009			
	Beginning Balance	Additions	Disposals	Ending Balance
Land and land improvements	\$ 57,019	\$ -	\$ -	\$ 57,019
Buildings	1,443,666	66,365	-	1,510,031
Major moveable equipment	250,407	33,081	1,125	282,363
	<u>1,751,092</u>	<u>99,446</u>	<u>1,125</u>	<u>1,849,413</u>
Less accumulated depreciation				
Land improvements	32,724	3,046	-	35,770
Buildings	1,165,428	35,218	-	1,200,646
Major moveable equipment	166,955	13,974	1,125	179,804
	<u>1,365,107</u>	<u>52,238</u>	<u>1,125</u>	<u>1,416,220</u>
Capital Assets, Net	<u>\$ 385,985</u>	<u>\$ 47,208</u>	<u>\$ -</u>	<u>\$ 433,193</u>
	2008			
	Beginning Balance	Additions	Disposals	Ending Balance
Land and land improvements	\$ 57,019	\$ -	\$ -	\$ 57,019
Buildings	1,420,620	23,046	-	1,443,666
Major moveable equipment	234,896	15,511	-	250,407
	<u>1,712,535</u>	<u>38,557</u>	<u>-</u>	<u>1,751,092</u>
Less accumulated depreciation				
Land improvements	29,529	3,195	-	32,724
Buildings	1,130,559	34,869	-	1,165,428
Major moveable equipment	154,300	12,655	-	166,955
	<u>1,314,388</u>	<u>50,719</u>	<u>-</u>	<u>1,365,107</u>
Capital Assets, Net	<u>\$ 398,147</u>	<u>\$ (12,162)</u>	<u>\$ -</u>	<u>\$ 385,985</u>

Spearville Hospital District
Notes to Financial Statements
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Note 4: Significant Estimates and Concentrations

Current Economic Conditions

The current protracted economic decline continues to present organizations with difficult circumstances and challenges, which in some cases have resulted in large declines in the value of assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the District.

Current economic conditions may make it difficult for certain of our residents to pay for services rendered. Further, the effect of economic conditions on the government may have an adverse effect on cash flows.

Supplementary Information

Spearville Hospital District
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
December 31, 2009

	<u>Actual</u>	<u>Tax Budget</u>	<u>Actual Over (Under) Budget</u>
Net resident service revenue	\$ 110,237	\$ 95,400	\$ 14,837
Other revenue	<u>41,803</u>	<u>27,040</u>	<u>14,763</u>
Total operating revenue	<u>152,040</u>	<u>122,440</u>	<u>29,600</u>
Operating expenses	245,463	320,572	(75,109)
Capital expenditures	<u>99,446</u>	<u>67,500</u>	<u>31,946</u>
Operating expenses	<u>344,909</u>	<u>388,072</u>	<u>(43,163)</u>
Operating loss	<u>(192,869)</u>	<u>(265,632)</u>	<u>72,763</u>
Property tax revenue	154,103	130,979	23,124
Other nonoperating revenues	<u>4,700</u>	<u>3,000</u>	<u>1,700</u>
Total nonoperating revenues	<u>158,803</u>	<u>133,979</u>	<u>24,824</u>
Deficiency of revenues over expenses	<u>\$ (34,066)</u>	<u>\$ (131,653)</u>	<u>\$ 97,587</u>