

# **Spearville Hospital District**

Independent Accountants' Report and Financial Statements

December 31, 2011 and 2010



**Spearville Hospital District**  
**December 31, 2011 and 2010**

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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, 2011 and 2010, 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, 2011 and 2010, 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.

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.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, 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 financial statements as a whole.

*BKD, LLP*

May 24, 2012

**Spearville Hospital District**  
**Balance Sheets**  
**December 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 51,386	\$ 49,616
Short-term certificate of deposit	50,863	38,750
Property taxes receivable	136,440	136,357
Other receivables	-	1,417
Supplies	3,996	3,345
Prepaid expenses and other	11,277	11,427
Total current assets	253,962	240,912
<b>Capital Assets, Net</b>	473,848	523,423
Total assets	\$ 727,810	\$ 764,335
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 27,857	\$ 17,965
Accrued expenses	8,259	7,346
Deferred property tax revenue	136,440	136,357
Total current liabilities	172,556	161,668
<b>Net Assets</b>		
Invested in capital assets	473,848	523,423
Unrestricted	81,406	79,244
Total net assets	555,254	602,667
Total liabilities and net assets	\$ 727,810	\$ 764,335

**Spearville Hospital District**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Net resident service revenue	\$ 96,917	\$ 105,211
Friendship meals	30,070	29,744
Miscellaneous	<u>6,204</u>	<u>7,527</u>
Total operating revenues	<u>133,191</u>	<u>142,482</u>
<b>Expenses and Losses</b>		
Salaries	91,064	87,525
Social security taxes	7,502	7,203
Employee health insurance	12,151	11,217
Workers' compensation insurance	2,546	2,952
Clinic supplies and expenses	47,183	37,819
Food	28,627	25,969
Utilities	42,212	43,649
Insurance	15,160	16,630
Other supplies and expense	37,439	34,097
Depreciation	<u>72,669</u>	<u>60,344</u>
Total operating expenses	<u>356,553</u>	<u>327,405</u>
<b>Operating Loss</b>	<u>(223,362)</u>	<u>(184,923)</u>
<b>Nonoperating Revenues</b>		
Property taxes	172,014	155,688
Interest income	440	2,473
Contributions	3,020	845
Sale of equipment	<u>475</u>	<u>-</u>
Total nonoperating revenues	<u>175,949</u>	<u>159,006</u>
<b>Deficiency of Revenues Over Expenses</b>	(47,413)	(25,917)
<b>Net Assets, Beginning of Year</b>	<u>602,667</u>	<u>628,584</u>
<b>Net Assets, End of Year</b>	<u>\$ 555,254</u>	<u>\$ 602,667</u>

**Spearville Hospital District**  
**Statements of Cash Flows**  
**Years Ended December 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Operating Activities</b>		
Receipts from and on behalf of residents	\$ 96,917	\$ 105,211
Payments to suppliers and contractors	(174,974)	(158,775)
Payments to employees	(107,857)	(106,416)
Other receipts, net	36,274	37,271
Net cash used in operating activities	(149,640)	(122,709)
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	172,014	167,330
Net cash provided by noncapital financing activities	172,014	167,330
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(12,426)	(150,574)
Sale of equipment	475	-
Net cash used in capital and related financing activities	(11,951)	(150,574)
<b>Investing Activities</b>		
Interest income	440	2,473
Net change in short-term certificates of deposit	(12,113)	(12,287)
Contributions received	3,020	845
Net cash used in investing activities	(8,653)	(8,969)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	1,770	(114,922)
<b>Cash and Cash Equivalents, Beginning of Year</b>	49,616	164,538
<b>Cash and Cash Equivalents, End of Year</b>	\$ 51,386	\$ 49,616
<b>Reconciliation of Net Operating Revenues (Expenses) to</b>		
<b>Net Cash Used in Operating Activities</b>		
Operating loss	\$ (223,362)	\$ (184,923)
Depreciation	72,669	60,344
Changes in operating assets and liabilities		
Accounts payable and accrued expenses	137	4,142
Other assets and liabilities	916	(2,272)
Net cash used in operating activities	\$ (149,640)	\$ (122,709)
<b>Supplemental Cash Flows Information</b>		
Capital assets acquisitions included in accounts payable	\$ 10,668	\$ -

# **Spearville Hospital District**

## **Notes to Financial Statements**

### **December 31, 2011 and 2010**

#### **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, 2011 and 2010, cash equivalents consisted primarily of certificates of deposit.

**Spearville Hospital District**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

***Property Taxes***

In the years ended December 31, 2011 and 2010, the District received 56% and 52%, respectively, 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 was provided through a fund managed by the Kansas Association of Homes for the Aging through April 1, 2010. 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. After April 1, 2010, the District no longer was self-insured for their workers' compensation coverage.

***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

***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

# **Spearville Hospital District**

## **Notes to Financial Statements**

### **December 31, 2011 and 2010**

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 two 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. 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.

#### ***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

#### **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 July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At December 31, 2011 and 2010, the District's cash accounts did not exceed federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

**Spearville Hospital District**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**Summary of Carrying Values**

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

	<b>2011</b>	<b>2010</b>
Carrying value		
Deposits	\$ 102,249	\$ 88,366
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 51,386	\$ 49,616
Short-term certificate of deposit	50,863	38,750
	\$ 102,249	\$ 88,366

**Note 3: Capital Assets**

Capital assets activity for the years ended December 31, 2011 and 2010, was:

	<b>2011</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land and land improvements	\$ 57,019	\$ -	\$ -	\$ 57,019
Buildings	1,612,159	19,366	-	1,631,525
Major moveable equipment	223,747	3,728	-	227,475
	1,892,925	23,094	-	1,916,019
Less accumulated depreciation				
Land improvements	38,816	3,046	-	41,862
Buildings	1,195,577	49,028	-	1,244,605
Major moveable equipment	135,109	20,595	-	155,704
	1,369,502	72,669	-	1,442,171
Capital Assets, Net	\$ 523,423	\$ (49,575)	\$ -	\$ 473,848

**Spearville Hospital District**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

	<b>2010</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	
Land and land improvements	\$ 57,019	\$ -	\$ -	\$ 57,019
Buildings	1,510,031	143,526	(41,398)	1,612,159
Major moveable equipment	<u>282,363</u>	<u>7,048</u>	<u>(65,664)</u>	<u>223,747</u>
	<u>1,849,413</u>	<u>150,574</u>	<u>(107,062)</u>	<u>1,892,925</u>
Less accumulated depreciation				
Land improvements	35,770	3,046	-	38,816
Buildings	1,200,646	36,329	(41,398)	1,195,577
Major moveable equipment	<u>179,804</u>	<u>20,969</u>	<u>(65,664)</u>	<u>135,109</u>
	<u>1,416,220</u>	<u>60,344</u>	<u>(107,062)</u>	<u>1,369,502</u>
Capital Assets, Net	<u>\$ 433,193</u>	<u>\$ 90,230</u>	<u>\$ -</u>	<u>\$ 523,423</u>

**Note 4: Significant Estimates and Concentrations**

***Current Economic Conditions***

The current economic environment presents businesses with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, 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 have made it difficult for certain patients to pay for services rendered. Further, the effect of economic conditions on the government may have an adverse effect on cash flows.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values that could negatively impact the District's ability to maintain sufficient liquidity.

## **Supplementary Information**

**Spearville Hospital District**  
**Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget**  
**Year Ended December 31, 2011**

	<u>Actual</u>	<u>Tax Budget</u>	<u>Actual Over (Under) Budget</u>
Net resident service revenue	\$ 98,334	\$ 82,800	\$ 15,534
Other revenue	<u>36,274</u>	<u>31,720</u>	<u>4,554</u>
Total operating revenue	<u>134,608</u>	<u>114,520</u>	<u>20,088</u>
Operating expenses	273,580	287,672	(14,092)
Capital expenditures	<u>12,426</u>	<u>51,000</u>	<u>(38,574)</u>
Operating expenses	<u>286,006</u>	<u>338,672</u>	<u>(52,666)</u>
Operating loss	<u>(151,398)</u>	<u>(224,152)</u>	<u>72,754</u>
Property tax revenue	172,014	136,357	35,657
Other nonoperating revenues	<u>3,460</u>	<u>3,000</u>	<u>460</u>
Total nonoperating revenues	<u>175,474</u>	<u>139,357</u>	<u>36,117</u>
Excess (deficiency) of revenues over expenses	<u>\$ 24,076</u>	<u>\$ (84,795)</u>	<u>\$ 108,871</u>