

**Board of Trustees of Phillips County Hospital  
A Component Unit of Phillips County, Kansas**

Independent Auditor's Report and Financial Statements

March 31, 2013 and 2012



**Board of Trustees of Phillips County Hospital**  
**A Component Unit of Phillips County, Kansas**  
**March 31, 2013 and 2012**

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## Independent Auditor's Report

Board of Trustees of Phillips County Hospital  
Phillipsburg, Kansas

We have audited the accompanying financial statements of the Board of Trustees of Phillips County Hospital (Board of Trustees), a component unit of Phillips County, Kansas, which comprise the balance sheets as of March 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### *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 Board of Trustees of Phillips County Hospital as of March 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***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.

***BKD, LLP***

Wichita, Kansas  
August 19, 2013

**Board of Trustees of Phillips County Hospital**  
**A Component Unit of Phillips County, Kansas**  
**Balance Sheets**  
**March 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 255,106	\$ 413,471
Certificates of deposit	279,500	279,500
Interest receivable	279	384
Total assets	<b>\$ 534,885</b>	<b>\$ 693,355</b>
 <b>Unrestricted Net Position</b>	 <b>\$ 534,885</b>	 <b>\$ 693,355</b>

**Board of Trustees of Phillips County Hospital**  
**A Component Unit of Phillips County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended March 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>Operating Revenues</b>		
Tax appropriations	\$ 342,386	\$ 339,004
<b>Operating Expenses</b>	<u>333</u>	<u>2,759</u>
<b>Operating Income</b>	<u>342,053</u>	<u>336,245</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	3,151	5,093
Noncapital gifts	447	9,698
Contribution to Hospital for operations	<u>(493,301)</u>	<u>(50,000)</u>
Total nonoperating revenues (expenses)	<u>(489,703)</u>	<u>(35,209)</u>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	(147,650)	301,036
<b>Contributions to Hospital for Property and Equipment</b>	<u>(10,820)</u>	<u>(78,592)</u>
<b>Increase (Decrease) in Net Position</b>	(158,470)	222,444
<b>Net Position, Beginning of Year</b>	<u>693,355</u>	<u>470,911</u>
<b>Net Position, End of Year</b>	<u>\$ 534,885</u>	<u>\$ 693,355</u>

**Board of Trustees of Phillips County Hospital**  
**A Component Unit of Phillips County, Kansas**  
**Statements of Cash Flows**  
**Years Ended March 31, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Tax appropriations received	\$ 342,386	\$ 339,004
Cash paid to suppliers and others	(333)	(2,759)
Net cash provided by operating activities	342,053	336,245
<b>Noncapital Financing Activities</b>		
Contributions to Hospital for operations	(493,301)	(50,000)
Noncapital gifts received	447	9,698
Net cash used in noncapital financing activities	(492,854)	(40,302)
<b>Capital and Related Financing Activities</b>		
Contributions to Hospital for property and equipment	(10,820)	(78,592)
Net cash used in capital and related financing activities	(10,820)	(78,592)
<b>Investing Activities</b>		
Interest income and investment return	3,256	5,159
Net cash provided by investing activities	3,256	5,159
<b>Increase (Decrease) in Cash</b>	(158,365)	222,510
<b>Cash, Beginning of Year</b>	413,471	190,961
<b>Cash, End of Year</b>	\$ 255,106	\$ 413,471
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 342,053	\$ 336,245
Net cash provided by operating activities	\$ 342,053	\$ 336,245

**Board of Trustees of Phillips County Hospital**  
**A Component Unit of Phillips County, Kansas**  
**Notes to Financial Statements**  
**March 31, 2013 and 2012**

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

***Nature of Operations and Reporting Entity***

The Board of Trustees of Phillips County Hospital (Board of Trustees) was organized to control the use of tax appropriations. The Board of Trustees is appointed by the County Commissioners of Phillips County and is considered to be a component unit of Phillips County.

Great Plains of Phillips County, Inc. d/b/a Phillips County Hospital (GPPC/Hospital) provides acute, skilled, intermediate care and clinic services in Phillips County, Kansas. The operations of the Hospital are reported on separately from the Board of Trustees due to the lease of hospital operations by the Hospital (see *Note 2*).

***Basis of Accounting and Presentation***

The financial statements of the Board of Trustees 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 tax appropriations and exchange transactions. Interest income, noncapital gifts and contributions to Hospital for operations are included in nonoperating revenues (expenses).

The Board of Trustees prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

***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 Board of Trustees considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at March 31, 2013 and 2012.

**Board of Trustees of Phillips County Hospital**  
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**Notes to Financial Statements**  
**March 31, 2013 and 2012**

***Tax Appropriations***

The Board of Trustees receives tax appropriations from Phillips County, Kansas. Property taxes are assessed in November and are received beginning in January of each year. Revenue from property taxes is recognized in the year from which the taxes are assessed to the extent such taxes are collected and available for use.

***Income Taxes***

As an essential government function, the Board of Trustees 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 Auditor's Report, which is the date the financial statements were available to be issued.

**Note 2: Lease and Management Agreement**

The Board of Trustees leases the hospital facilities to GPPC for one dollar. In connection with this lease, Great Plains Health Alliance, the sole member of GPPC, has a management agreement with GPPC. The lease agreement provides that GPPC will assume and continue the operations of the Hospital and maintain all property and equipment in good condition. Either party has the option to terminate the lease at any time for a material breach of terms or provisions of the agreement with a 90-day notice.

**Note 3: 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 Board of Trustees' 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 acceptable collateral 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.

The Board of Trustees maintains its bank deposits (checking and savings accounts and certificates of deposit) with financial institutions which, at times, exceed federally insured limits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Board of Trustees is periodically reviewed and the Board of Trustees believes it is not exposed to any significant credit risk on these balances.

**Board of Trustees of Phillips County Hospital**  
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**Notes to Financial Statements**  
**March 31, 2013 and 2012**

All certificates of deposit have remaining maturities of less than one year and are reported at cost, which approximates fair value.

At March 31, 2013 and 2012, respectively, \$114,606 and \$273,837 of the Board of Trustees' bank balances of \$534,606 and \$693,837 were exposed to custodial credit risk as follows:

	<u>2013</u>	<u>2012</u>
Insured (FDIC)	\$ 420,000	\$ 420,000
Collateralized by securities held on behalf of the pledging financial institution in the Board of the Trustees' name	<u>114,606</u>	<u>273,837</u>
Total	<u>\$ 534,606</u>	<u>\$ 693,837</u>

**Summary of Carrying Values**

The carrying values of deposits shown above are included in the balance sheets at March 31, 2013 and 2012, as follows:

	<u>2013</u>	<u>2012</u>
Carrying Value		
Cash	\$ 255,106	\$ 413,471
Certificates of deposit	<u>279,500</u>	<u>279,500</u>
	<u>\$ 534,606</u>	<u>\$ 692,971</u>

**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 Board of Trustees.

Current economic conditions may make it difficult for the taxpayers to pay assessed taxes. Further, the effect of economic conditions on the government may have an adverse effect on cash flows.