

SUBLETTE HOSPITAL DISTRICT  
STATUTORY BASIS FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT

December 31, 2009

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Sublette Hospital District  
Sublette, KS 67877

We have audited the accompanying statutory basis financial statements of the Sublette Hospital District as of and for the year ended December 31, 2009, as listed in the table of contents. These statutory basis financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on the statutory basis financial statements based on our audit. The prior year comparative information has been derived from the District's 2008 financial statements and, in our report dated March 9, 2009, we expressed an unqualified opinion on the statutory basis financial statements prepared on the basis of accounting described in Note 1.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As described in Note 1, the District prepared these statutory basis financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the statutory basis financial statements of the differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the statutory basis financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Sublette Hospital District as of December 31, 2009, or the changes in its financial position, or where applicable, its cash flows for the year then ended. Further, the District has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of Sublette Hospital District as of December 31, 2009, and its cash receipts and expenditures, and budgetary comparisons, for the year then ended, taken as a whole under the basis of accounting described in Note 1.

*Lewis, Hooper + Dick, LLC*

LEWIS, HOOPER & DICK, LLC

September 20, 2010

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**SUBLETTE HOSPITAL DISTRICT**  
**Comparison of Cash Balances with Encumbrances and Composition of Cash**  
**For the Year Ended December 31, 2009**

	Unencumbered Cash 1/1/09	Cash Receipts	Cash Disbursements	Unencumbered Cash 12/31/09	Outstanding Encumbrances and Accounts Payable	Treasurer's Cash 12/31/09
General	\$ 143,365	\$ 241,605	\$ 218,992	\$ 165,978	\$ -	\$ 165,978
Special Revenues:						
Ambulance	203,302	51,871	-	255,173	-	255,173
Building	353,030	50,923	-	403,953	-	403,953
Total all funds (memorandum only)	<u>\$ 699,697</u>	<u>\$ 344,399</u>	<u>\$ 218,992</u>	<u>\$ 825,104</u>	<u>\$ -</u>	<u>\$ 825,104</u>

## Composition of cash:

Centera Bank:	
Checking account	\$ 37,214
Less outstanding checks	(1,688)
Money market accounts	226,960
Certificates of deposit	<u>562,618</u>
Total cash	<u>\$ 825,104</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**SUBLETTE HOSPITAL DISTRICT**  
**Summary of Expenditures - Actual and Budget**  
**For the Year Ended December 31, 2009**

	<u>Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
General	\$ 322,300	\$ 218,992	\$ (103,308)
Special Revenues:			
Ambulance	231,472	-	(231,472)
Building	334,286	-	(334,286)

The accompanying Notes to Financial Statements are an integral part of this statement.

**SUBLETTE HOSPITAL DISTRICT**  
**General Fund**  
**Statement of Cash Receipts and Expenditures - Actual and Budget**  
**For the Year Ended December 31, 2009**  
 (With Comparative Actual Totals for the Prior Year Ended December 31, 2008)

	Prior Year Actual	Actual	Budget	Variance Over Over (Under)
<b>Cash receipts:</b>				
Taxes	\$ 230,255	\$ 218,194	\$ 215,749	\$ 2,445
Ambulance	39,777	19,436	22,000	(2,564)
Clinic and CPR	-	-	1,750	(1,750)
Class fees	-	-	500	(500)
Reimbursements and miscellaneous	2,010	3,045	-	3,045
Materials sales	-	-	500	(500)
Interest	5,071	930	500	430
<b>Total cash receipts</b>	<b>277,113</b>	<b>241,605</b>	<b>\$ 240,999</b>	<b>\$ 606</b>
<b>Expenditures:</b>				
Ambulance	7,328	8,555	\$ 5,000	\$ 3,555
Supplies and equipment	48,373	46,702	19,500	27,202
Training	7,149	4,097	10,000	(5,903)
Insurance	13,822	13,848	14,000	(152)
Utilities	4,415	4,599	4,000	599
Contract expense	875	5,250	4,800	450
Director/Assistant - Salary/Benefits	18,946	22,199	24,000	(1,801)
Personnel - EMS	-	-	75,000	(75,000)
Clinic	3,202	2,645	59,000	(56,355)
Board expense	10,430	10,097	6,000	4,097
Transfers	121,000	101,000	101,000	-
<b>Total expenditures</b>	<b>235,540</b>	<b>218,992</b>	<b>\$ 322,300</b>	<b>\$ (103,308)</b>
Receipts over expenditures	41,573	22,613		
Unencumbered cash, beginning of year	101,792	143,365		
Unencumbered cash, end of year	<b>\$ 143,365</b>	<b>\$ 165,978</b>		

The accompanying Notes to Financial Statements are an integral part of this statement.

**SUBLETTE HOSPITAL DISTRICT**  
**Ambulance Fund**  
**Statement of Cash Receipts and Expenditures - Actual and Budget**  
**For the Year Ended December 31, 2009**  
**(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)**

	Prior Year Actual	Actual	Budget	Variance Over (Under)
Cash receipts:				
Interest	\$ 2,830	\$ 871	\$ -	\$ 871
Transfers	71,000	51,000	51,000	-
Total cash receipts	<u>73,830</u>	<u>51,871</u>	<u>\$ 51,000</u>	<u>\$ 871</u>
Expenditures:				
Ambulance and equipment	-	-	\$ 231,472	\$ (231,472)
Total expenditures	<u>-</u>	<u>-</u>	<u>\$ 231,472</u>	<u>\$ (231,472)</u>
Receipts over expenditures	73,830	51,871		
Unencumbered cash, beginning of year	<u>129,472</u>	<u>203,302</u>		
Unencumbered cash, end of year	<u>\$ 203,302</u>	<u>\$ 255,173</u>		

The accompanying Notes to Financial Statements are an integral part of this statement.

**SUBLETTE HOSPITAL DISTRICT**  
**Building Fund**  
**Statement of Cash Receipts and Expenditures - Actual and Budget**  
**For the Year Ended December 31, 2009**  
**(With Comparative Actual Totals for the Prior Year Ended December 31, 2008)**

	Prior Year Actual	Actual	Budget	Variance Over (Under)
Cash receipts:				
Interest	\$ 5,744	\$ 923	\$ -	\$ 923
Transfers	50,000	50,000	50,000	-
Total cash receipts	<u>55,744</u>	<u>50,923</u>	<u>\$ 50,000</u>	<u>\$ 923</u>
Expenditures:				
Building	-	-	\$ 334,286	\$ (334,286)
Total expenditures	<u>-</u>	<u>-</u>	<u>\$ 334,286</u>	<u>\$ (334,286)</u>
Receipts over expenditures	55,744	50,923		
Unencumbered cash, beginning of year	<u>297,286</u>	<u>353,030</u>		
Unencumbered cash, end of year	<u>\$ 353,030</u>	<u>\$ 403,953</u>		

The accompanying Notes to Financial Statements are an integral part of this statement.

SUBLETTE HOSPITAL DISTRICT  
Notes to Financial Statements  
For the Year Ended December 31, 2009

1. Summary of significant accounting policies

The Sublette Hospital District is a Kansas municipality that provides for the operation of the Sublette Clinic. The District is a health care facility organized as a district hospital pursuant to K.S.A. 80-2113.

A. Financial reporting entity

The District is governed by an elected five-member board. As required by the prescribed basis of accounting, which demonstrates compliance with the cash basis and budget laws of the State of Kansas, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, these financial statements present the Sublette Hospital District, Sublette, Kansas, (the primary government) and its component units. However, the District has no organizations, functions or activities which are considered component units of the District.

B. Measurement focus, basis of accounting and basis of presentation

These financial statements are presented on a basis of accounting which demonstrates compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure is recorded in the fund from which the transfer is made.

C. Waiver of financial reporting requirements

The District's Board has determined by resolution that financial statements prepared in conformity with accounting principles generally accepted in the United States of America are not relevant to the requirements of the cash basis and budget laws of the State of Kansas and are of no significant value to the Board, the District or the members of the general public of the District. The District approved the resolution which served as notice of the Board's election to waive the requirements for reporting of its financial data in conformity with accounting principles generally accepted in the United States of America, as provided and authorized by K.S.A. 75-1120a.

D. Departure from generally accepted accounting principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expense, liabilities such as deferred revenue, matured principal and interest payable and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Also, general long-term debt such as general obligation bonds, capital leases, temporary notes and compensated absences are not presented in the financial statements.

SUBLETTE HOSPITAL DISTRICT  
Notes to Financial Statements  
For the Year Ended December 31, 2009

1. Summary of significant accounting policies (continued)

E. Basis of presentation - fund accounting

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following funds are used by the District:

Governmental Funds

General Fund - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

F. Budgetary information

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

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. 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 revenue 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 amendments to the original budget for the year ended December 31, 2009.

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 statements are presented for each fund showing actual receipts and disbursements compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. 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. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

A legal operating budget is not required for capital projects funds and trust funds.

SUBLETTE HOSPITAL DISTRICT  
Notes to Financial Statements  
For the Year Ended December 31, 2009

1. Summary of significant accounting policies (continued)

F. Budgetary information (continued)

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes or by the use of internal spending limits established by the governing body.

G. Property taxes and special assessments

The determination of assessed valuations and the collections of property taxes for all political subdivisions in the State of Kansas is the responsibility of the counties. The County Appraiser annually determines assessed valuations based on real property transactions as recorded by the Register of Deeds and personal property holdings reported by taxpayers. The County Clerk spreads the annual assessment on the tax rolls and the County Treasurer collects the taxes for all taxing entities within the County.

Taxes are assessed on a calendar year basis, are levied and become a lien on the property on November 1st of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20th during the year levied with the balance to be paid on or before May 10th of the ensuing year. State statutes prohibit the County Treasurer from distributing the taxes collected in the year levied prior to January 1st of the ensuing year. One-half of the property taxes are due December 20th and distributed to the District by January 20th to finance a portion of the current year's budget. The second half is due May 10th and distributed to the District by June 5th.

Kansas statutes require projects financed in part by special assessments to be financed through the issuance of general obligation bonds which are secured by the full faith and credit of the District. Special assessments received prior to or after the issuance of general obligation bonds are recorded as revenue in the appropriate project fund. Further, state statutes require levying additional general ad valorem property taxes in the Debt Service Fund to finance delinquent special assessments receivable.

H. Cash and investments

Cash resources of the individual funds are combined to form a pool of cash and investments which is managed by the District (except for investments in the Kansas Municipal Investment Pool). Cash includes amounts in demand deposits, time deposits and certificates of deposit. Investments of the pooled accounts consist primarily of investments with the Kansas Municipal Investment Pool and U.S. government securities carried at cost, which approximates market. Interest income earned, unless specifically designated, is allocated to the general fund.

I. Interfund transactions

Quasi-external transactions (i.e., transactions that would be treated as revenues or expenses if they involved organizations external to the governmental unit, such as internal service fund billings to departments) are accounted for as cash receipts or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

SUBLETTE HOSPITAL DISTRICT  
Notes to Financial Statements  
For the Year Ended December 31, 2009

1. Summary of significant accounting policies (continued)

J. Reimbursements

A reimbursement is an expenditure or expense initially made in one fund, but properly attributable to another fund. For example, it is common for the general fund to pay a vendor's bill and have portions of it reimbursed by other funds. In accounting for such reimbursements, the District records an expenditure (or expense) in the reimbursing fund and a reduction of expenditure (or expense) in the reimbursed fund, following the authoritative guidance of the *Governmental Accounting, Auditing and Financial Reporting*.

K. Memorandum totals

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. No consolidated financial information is presented nor is all required disclosures presented for these amounts.

L. Comparative data

The statutory basis financial statements include certain prior year comparative information in order to provide an understanding of the changes in the cash receipts and expenditures of the funds, but not at the level of detail required for a presentation in conformity with the statutory basis of accounting. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2008, from which the summarized information was derived.

2. Deposits and investments

A reconciliation of cash and investments as shown in the composition of cash on the summary of cash receipts, expenditures and unencumbered cash on Statement 1 is as follows:

Carrying amount of deposits	\$ 825,104
Total cash	\$ 825,104

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require 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, except during designated "peak periods" when required coverage is 50%.

SUBLETTE HOSPITAL DISTRICT  
Notes to Financial Statements  
For the Year Ended December 31, 2009

2. Deposits and investments (continued)

The District does not use "peak periods". All deposits were secured at December 31, 2009.

At December 31, 2009, the District's carrying amount of deposits was \$825,104 and the bank balance was \$826,794. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$287,214 was covered by federal depository insurance and \$539,580 was collateralized with securities held by the pledging financial institutions' agents in the District's name. The District's cash deposits at year-end are as follows:

Centera Bank

FDIC coverage	\$	287,214
Pledged securities at market value		680,883
Total coverage	\$	968,097
Funds on deposit	\$	826,794
Funds at risk	\$	-

Credit risk - investments

State statutes authorize the District to invest idle funds in U.S. government securities, temporary notes, no-fund warrants, repurchase agreements and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices. The District had no investments of this type at December 31, 2009.

3. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

4. Compliance with Kansas statutes

References made herein to the statutes are not intended as interpretation of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and the legal representative of the District. No statutory violations were noted during the year.

5. Interfund transfers

Interfund operating transfers are as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
General	Ambulance	80-2518	\$ 51,000
General	Building	80-2518	50,000
Total			\$ 101,000

6. Subsequent event

The Board of Sublette Hospital District is working with the Haskell County Commissioners to consolidate ambulance services within Haskell County. As of April 1, 2010, the Sublette Hospital District will grant, transfer and convey all vehicles and equipment utilized by its ambulance service to Haskell County. Sublette Hospital District will discontinue its tax levy after 2010 and will disorganize in accordance with K.S.A. 80-2524 as of December 31, 2010.