SUBLETTE HOSPITAL DISTRICT

STATUTORY BASIS FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

December 31, 2010

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LEWIS, HOOPER & DICK LLC
certified public accountants

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, 2010, 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 2009 financial statements and, in our report dated September 20, 2010, 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, 2010, 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, 2010, 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

April 20, 2011

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SUBLETTE HOSPITAL DISTRICT
Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2010

	Unencumbered Cash 1/1/10	Cash Receipts	Cash Disbursements	Unencumbered Cash 12/31/10	Outstanding Encumbrances and Accounts Payable	Treasurer's Cash 12/31/10
General	$ 165,978	$ 1,023,813	$ 1,189,791	$ -	$ 2,901	$ 2,901
Special Revenues:						
Ambulance	255,173	69,129	324,302	-	-	-
Building	403,953	466	404,419	-	-	-
Total all funds (memorandum only)	$ 825,104	$ 1,093,408	$ 1,918,512	$ -	$ 2,901	$ 2,901

Composition of cash:

Centera Bank:	
Checking account	$ 4,378
Less outstanding checks	(1,477)
Total cash	$ 2,901

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, 2010

	Certified Budget	Adjustments for Qualifying Budget Credits	Total Budget	Expenditures Chargeable to Current Year	Variance Over (Under)
General	$ 347,350	$ 1,022,573	$ 1,369,923	$ 1,189,791	$ (180,132)
Special Revenues:					
Ambulance	324,302	-	324,302	324,302	-
Building	453,030	-	453,030	404,419	(48,611)

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, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

	Prior Year Actual	Current Year Actual	Current Year Budget	Variance Over (Under)
Cash receipts:				
Taxes	$ 218,194	$ 264,701	$ 262,553	$ 2,148
Ambulance	19,436	29,827	22,000	7,827
Clinic and CPR	-	-	1,750	(1,750)
Class fees	-	-	500	(500)
Reimbursements and miscellaneous	3,045	-	-	-
Materials sales	-	-	500	(500)
Interest	930	564	500	64
Transfers	-	728,721	-	728,721
Total cash receipts	241,605	1,023,813	$ 287,803	$ 736,010
Expenditures:				
Ambulance	8,555	3,408	$ 5,000	$ (1,592)
Supplies and equipment	46,702	22,160	25,550	(3,390)
Training	4,097	874	10,000	(9,126)
Insurance	13,848	-	14,000	(14,000)
Utilities	4,599	2,227	4,000	(1,773)
Contract expense	5,250	3,500	4,800	(1,300)
Personnel - EMS	22,199	33,365	99,000	(65,635)
Clinic	2,645	3,798	59,000	(55,202)
Board expense	10,097	29,157	6,000	23,157
Transfers	101,000	68,729	120,000	(51,271)
Total	218,992	167,218	$ 347,350	$ (180,132)
Expenditures outside of budget authority:				
Close out to County	-	1,022,573		
Total expenditures	218,992	1,189,791		
Receipts over (under) expenditures	22,613	(165,978)		
Unencumbered cash, beginning of year	143,365	165,978		
Unencumbered cash, end of year	$ 165,978	$ -		

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, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Over (Under)
Cash receipts:				
Interest	$ 871	$ 400	$ -	$ 400
Transfers	51,000	68,729	70,000	(1,271)
Total cash receipts	51,871	69,129	$ 70,000	$ (871)
Expenditures:				
Ambulance and equipment	-	-	$ 324,302	$ (324,302)
Transfers	-	324,302	-	324,302
Total expenditures	-	324,302	$ 324,302	$ -
Receipts over (under) expenditures	51,871	(255,173)		
Unencumbered cash, beginning of year	203,302	255,173		
Unencumbered cash, end of year	$ 255,173	$ -		

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, 2010
(With Comparative Actual Totals for the Prior Year Ended December 31, 2009)

		Current Year		
	Prior Year Actual	Actual	Budget	Variance Over (Under)
Cash receipts:				
Interest	$ 923	$ 466	$ -	$ 466
Transfers	50,000	-	50,000	(50,000)
Total cash receipts	50,923	466	$ 50,000	$ (49,534)
Expenditures:				
Building	-	-	$ 453,030	$ (453,030)
Transfers	-	404,419	-	404,419
Total expenditures	-	404,419	$ 453,030	$ (48,611)
Receipts over (under) expenditures	50,923	(403,953)		
Unencumbered cash, beginning of year	353,030	403,953		
Unencumbered cash, end of year	$ 403,953	$ -		

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, 2010

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.

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, 2010.

A qualifying budget adjustment to the General Fund in the amount of $1,022,573 resulted from the close out of the District to the County.

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.

1. Summary of significant accounting policies (continued)

F. Budgetary information (continued)
A legal operating budget is not required for capital projects funds and trust funds.

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.

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, 2009, from which the summarized information was derived.

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

Carrying amount of deposits	$ 2,901
Total cash	$ 2,901

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%.

2. Deposits and investments (continued)
The District does not use "peak periods". All deposits were secured at December 31, 2010.

At December 31, 2010, the District's carrying amount of deposits was $2,901 and the bank balance was $4,378. The bank balance was held by one bank resulting in a concentration of credit risk. All of the bank balance was covered by federal depository insurance. The District's cash deposits at year-end are as follows:

Centera Bank	
FDIC coverage	$ 4,378
Funds on deposit	$ 4,378
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, 2010.

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:

From	To	Statutory Authority	Amount
General	Ambulance	80-2518	$ 68,729
Ambulance	General	80-2518	324,302
Building	General	80-2518	404,419
Total			$ 797,450

6. Related party transactions
The District purchases goods and services from District Board members and businesses operated by District Board members. The District paid these members and businesses $15,198 during the year ended December 31, 2010.

7. Disorganization

The Board of Sublette Hospital District has worked with the Haskell County Commissioners to consolidate ambulance services within Haskell County. As of April 1, 2010, the Sublette Hospital District granted, transferred and conveyed all vehicles and equipment utilized by its ambulance service to Haskell County. On September 20, 2010, the Board entered into an agreement for the transfer of real estate and services to be provided with Haskell County. Subsequent to September 20, 2010, the District transferred the deed to the building and the remaining cash funds. Sublette Hospital District discontinued its tax levy after 2010 and has disorganized in accordance with K.S.A. 80-2524 as of December 31, 2010.