

**Board of Trustees of Smith County Memorial Hospital
A Component Unit of Smith County, Kansas**

Accountants' Report and Financial Statements

March 31, 2011 and 2010



Board of Trustees of Smith County Memorial Hospital
A Component Unit of Smith County, Kansas
March 31, 2011 and 2010

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Independent Accountants' Report

Board of Trustees
Board of Trustees of Smith County Memorial Hospital
Smith Center, Kansas

We have audited the accompanying balance sheets of the Board of Trustees of Smith County Memorial Hospital, a component unit of Smith County, Kansas, as of March 31, 2011 and 2010, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Board of Trustees. 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 the Board of Trustees of Smith County Memorial Hospital as of March 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.

The Board of Trustees has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined necessary to supplement, although not required to be a part of, the basic financial statements.

BKD, LLP

October 3, 2011

Board of Trustees of Smith County Memorial Hospital
A Component Unit of Smith County, Kansas

Balance Sheets
March 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash	\$ 516,606	\$ 190,791
Certificates of deposit	200,000	226,501
Accrued interest	434	428
Due from Hospital	5,413	5,413
Estate receivable	-	413,750
	722,453	836,883
Interest in Net Assets of Greater Salina Community Foundation	207,996	-
Total assets	\$ 930,449	\$ 836,883
 Liabilities and Net Assets		
Current Liabilities		
Due to Hospital	\$ -	\$ 11,790
Unrestricted Net Assets	930,449	825,093
Total liabilities and net assets	\$ 930,449	\$ 836,883

Board of Trustees of Smith County Memorial Hospital
A Component Unit of Smith County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Tax appropriations	\$ 191,444	\$ 76,411
Operating Expenses	<u>2,020</u>	<u>1,796</u>
Operating Income	<u>189,424</u>	<u>74,615</u>
Nonoperating Revenues (Expenses)		
Interest income	3,437	4,301
Noncapital gifts	2,240	413,750
Change in interest in net assets of Greater Salina Community Foundation	57,996	-
Contribution to Hospital for operations	<u>(105,000)</u>	<u>(99,000)</u>
Total nonoperating revenues (expenses)	<u>(41,327)</u>	<u>319,051</u>
Excess of Revenues Over Expenses	148,097	393,666
Contributions to Hospital for Property and Equipment	(42,741)	(139,930)
Transfers from Smith County for Hospital Equipment	<u>-</u>	<u>200,000</u>
Increase in Net Assets	105,356	453,736
Net Assets, Beginning of Year	<u>825,093</u>	<u>371,357</u>
Net Assets, End of Year	<u><u>\$ 930,449</u></u>	<u><u>\$ 825,093</u></u>

Board of Trustees of Smith County Memorial Hospital
A Component Unit of Smith County, Kansas
Statements of Cash Flows
Years Ended March 31, 2011 and 2010

	2011	2010
Operating Activities		
Tax appropriations received	\$ 191,444	\$ 76,411
Other payments	(2,020)	(1,796)
Net cash provided by operating activities	189,424	74,615
Noncapital Financing Activities		
Contributions to Hospital for operations	(105,000)	(99,000)
Transfers from Smith County for Hospital equipment	-	200,000
Noncapital gifts received	415,990	-
Net cash provided by noncapital financing activities	310,990	101,000
Capital and Related Financing Activities		
Contributions to Hospital for property and equipment	(54,531)	(240,535)
Investing Activities		
Interest received	3,431	4,477
(Increase) decrease in certificates of deposit	26,501	(26,501)
Contribution additions to interest in net assets of Greater Salina Community Foundation	(150,000)	-
Net cash used in investing activities	(120,068)	(22,024)
Increase (Decrease) in Cash	325,815	(86,944)
Cash, Beginning of Year	190,791	277,735
Cash, End of Year	\$ 516,606	\$ 190,791
Reconciliation of Net Operating Revenues to Net Cash Provided by Operating Activities		
Excess of revenues over expenses	\$ 148,097	\$ 393,666
Interest income	(3,437)	(4,301)
Noncapital gifts	(2,240)	(413,750)
Change in interest in net assets of Greater Salina Community Foundation	(57,996)	-
Contributions to Hospital for operations	105,000	99,000
Net cash provided by operating activities	\$ 189,424	\$ 74,615

Board of Trustees of Smith County Memorial Hospital
A Component Unit of Smith County, Kansas
Notes to Financial Statements
March 31, 2011 and 2010

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

Nature of Operations

The Board of Trustees of Smith County Memorial Hospital (Board of Trustees) was organized by the County Commissioners of Smith County to operate a governmental hospital and to control the use of tax appropriations. The Board of Trustees is appointed by the County Commissioners of Smith County.

Great Plains of Smith County, Inc. (GPSC/Hospital) is located in Smith Center, Kansas and provides acute, swing-bed, long-term care and clinic services. The operations of GPSC are reported on separately from the Board of Trustees due to the lease of Hospital operations by GPSC (*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). Pursuant to GASB Statement No. 20, the Board of Trustees has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that 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.

Board of Trustees of Smith County Memorial Hospital
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Tax Appropriations

The Board of Trustees receives tax appropriations from Smith 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 for 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. However, the Board of Trustees is subject to federal income tax on any unrelated business taxable income.

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, 2011 and 2010.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Lease and Management Agreement

The Board of Trustees has entered into a lease agreement to lease the hospital facilities to GPSC for one dollar. The lease term provides that GPSC 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 with 60 days 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.

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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.

At March 31, 2011 and 2010, none of the Board of Trustees bank balances were exposed to custodial credit risk.

Note 4: Interest in Net Assets of Greater Salina Community Foundation

The Board of Trustees has entered into an Organization Fund Agreement (Agreement) with the Smith County Community Foundation, an affiliate of the Greater Salina Community Foundation (Foundation). In connection with the contribution and Agreement, the Foundation established the Smith County Memorial Hospital Fund (Fund). Per the agreement, the Fund is to be held in perpetuity as a component fund of the Foundation with annual distributions from the Fund available for the benefit of the Smith County Memorial Hospital. The Board of Trustees' interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in the interest in are included in nonoperating revenue.

The Board of Trustees contributed \$150,000 and \$0 to the Foundation in 2011 and 2010, respectively.

Note 5: Estate Receivable

The Board of Trustees was named as a beneficiary of an estate that was settled in March 2010. Payment of the unrestricted estate gift was received in April 2010.

Note 6: 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 and unanticipated 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 county's taxpayers to pay assessed taxes. Further, the effect of economic conditions on the government may have an adverse effect on cash flows.