

AUDITED FINANCIAL STATEMENTS
WEST CUSTER COUNTY HOSPITAL DISTRICT
WESTCLIFFE, COLORADO
December 31, 2010 and 2009

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Garren, Ross & DeNardo, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

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June 15, 2011

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West Custer County Hospital District
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Independent Auditor's Report

We have audited the accompanying financial statements of West Custer County Hospital District as of and for the years ended December 31, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. 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. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Custer County Hospital District as of December 31, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through iv and 11 - 14 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of West Custer County Hospital District. The schedules of operating expenses by department on pages 15 - 17 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and certain 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 basic financial statements taken as a whole.

Garren, Ross & DeNardo, Inc.

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-1-

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Management's Discussion and Analysis

**West Custer County Hospital District
Management's Discussion and Analysis
For the years ended December 31, 2010, 2009 and 2008**

The intent of the management discussion and analysis is to provide highlights of the West Custer County Hospital District's financial activities for the fiscal years ending December 31, 2010, 2009 and 2008. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

District Operations

The District operates as a Special District under the authority of the laws of the State of Colorado, Department of Public Health & Environment. The activities of the District include operating a Chapter IX Community Medical Clinic and a volunteer ambulance service referred to as Custer County Ambulance Service.

Overview of Financial Statements

The District's basic financial statements include a statement of net assets, a statement of revenue, expenses and changes in net assets, statement of cash flows and notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements themselves.

The statement of net assets (formerly the balance sheet) presents the financial position of the District. It presents information on the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of revenues, expenses and changes in net assets presents information showing how the District's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Revenues are recognized when earned, not when they are received. Expenses are recognized when incurred, not when they are paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

The statement of cash flows presents information on the effects changes in assets and liabilities have on cash during the course of the year.

The notes to the financial statements provide information that is essential to a full understanding of the data provided in the District's financial statements. The notes to the financial statements can be found on pages 5-10 of this report.

Financial Analysis

A condensed summary of the District's statements of revenues, expenses and changes in net assets for the years ended December 31 is presented below:

**West Custer County Hospital District
Management's Discussion and Analysis
For the years ended December 31, 2010, 2009 and 2008**

Financial Analysis (Continued)

	<u>2010</u>	<u>2009</u>	Dollar Change	Percent Change	<u>2008</u>	Dollar change	Percent Change
Program Revenues							
Patient fees - various	\$ 1,492,474	\$ 1,426,473	\$ 66,001	4.63%	\$ 1,468,708	(\$ 42,235)	(2.88%)
Administrative adjustments	(715,109)	(550,275)	164,834	29.96%	(476,155)	(74,120)	(15.57%)
Total Program Revenues	<u>777,365</u>	<u>876,198</u>	<u>(98,833)</u>	<u>(11.28%)</u>	<u>992,553</u>	<u>(116,355)</u>	<u>(11.72%)</u>
Program Expenses							
Administration	437,056	427,544	9,512	2.23%	436,002	8,458	(1.94%)
Ambulance service	325,188	286,093	39,095	13.67%	260,779	(25,314)	(9.71%)
Central Service & Supply	133,894	176,990	(43,096)	(24.35%)	187,168	10,178	(5.44%)
HCBS	794	223	571	256.06%	14,061	13,838	(98.41%)
Laboratory	81,078	77,257	3,821	4.95%	81,408	4,151	(5.10%)
Maintenance & operation	67,835	63,916	3,919	6.14%	60,306	(3,610)	5.99%
Medical	631,283	658,827	(27,544)	(4.19%)	594,551	(64,276)	10.81%
Pharmacy	17,628	23,123	(5,495)	(23.77%)	21,294	(1,829)	8.59%
Therapy	83,986	71,478	12,508	17.50%	46,593	(24,885)	53.41%
X-Ray	19,998	21,093	(1,095)	(5.20%)	13,231	(7,862)	59.42%
Optometry	10,825	11,575	(750)	(6.48%)	4,287	(7,288)	(170.00%)
Total Program Expenses	<u>1,809,565</u>	<u>1,818,119</u>	<u>(8,554)</u>	<u>(.48%)</u>	<u>1,719,680</u>	<u>(98,439)</u>	<u>5.72%</u>
Nonoperating Revenues and Expenses							
Taxes	487,622	453,898	33,724	7.43%	459,372	(5,474)	(1.19%)
Grants and donations	129,149	111,847	17,302	15.47%	192,575	(80,728)	(41.93%)
Investment income	3,079	4,599	(1,520)	(33.06%)	13,354	(8,755)	(65.56%)
Other income	49,670	30,136	19,534	64.82%	5,666	24,470	431.87%
Treasurer's fees	(21,788)	(19,969)	1,819	9.11%	(20,052)	83	.41%
Net Other Revenues and (Expenses)	<u>647,732</u>	<u>580,511</u>	<u>67,221</u>	<u>11.58%</u>	<u>650,915</u>	<u>(70,404)</u>	<u>(10.82%)</u>
Income (Loss) Before Capital Contributions	<u>(384,468)</u>	<u>(361,410)</u>	<u>(23,058)</u>	<u>6.39%</u>	<u>(76,212)</u>	<u>(285,198)</u>	<u>(227.93%)</u>
Capital Contributions	<u>51,507</u>	<u>111,491</u>	<u>(59,984)</u>	<u>53.81%</u>	<u>293,199</u>	<u>(181,708)</u>	<u>100.00%</u>
Change in Net Assets	<u>(\$ 332,961)</u>	<u>(\$ 249,919)</u>	<u>(\$ 83,042)</u>	<u>(33.23%)</u>	<u>\$ 216,987</u>	<u>(\$ 466,906)</u>	<u>(215.18%)</u>

Program Revenues – Patient Fees

Patient fees increased by \$66,001 compared to 2009. Net program revenue decreased by \$98,833 due to administrative adjustments increasing.

Nonoperating Revenues

Nonoperating revenues consist of three primary sources. The most significant source is tax revenues, which include property and specific ownership taxes, totaling \$487,622 or an increase from 2009 of \$33,724.

**West Custer County Hospital District
Management's Discussion and Analysis
For the years ended December 31, 2010, 2009 and 2008**

Nonoperating Revenues (Continued)

Grants and donations and capital contributions totaled \$180,656 or an decrease from 2009 of \$42,682. Revenues from this source tend to vary from year to year to a greater degree than other revenues dependent upon grant sources available to the District. These revenues are often restricted to specific purposes such as capital asset purchases.

Other nonoperating revenues include interest income and miscellaneous income from various sources.

Total Program Expenses

Total program expenses for the 2010 fiscal year totaled \$1,809,565 compared to the prior year of \$1,818,119. This is an decrease of \$8,554 or .48%. The District had a 5.72% increase in expenses from 2008 to 2009. Combined expenses are comprised of several major categories or functional expense categories as shown in the table which summarizes the statement of revenues, expenses and changes in net assets.

Major Functional Expense Categories

The largest functional expense categories are administration, medical, ambulance and central service and supply. These four categories account for over eighty percent of the total program expenses. The other functional expense categories are HCBS, maintenance and operation, pharmacy, therapy and X-ray. Although smaller in total costs, these categories are distinct and important to the overall services provided by the District.

The functional categories with the largest dollar amount change were central service and supply which decreased by \$43,096, ambulance services which increased by \$39,095, and medical which decreased by \$27,544.

A condensed summary of the District's net assets at December 31, 2010, 2009 and 2008 is presented below:

Statement of Net Assets	2010	2009	Dollar Change	Percent Change	2008	Dollar change	Percent Change
Capital Assets	\$ 1,473,815	\$ 1,565,045	(\$ 91,230)	(5.83%)	\$ 1,600,010	(\$ 34,965)	(2.19%)
Current and Other Assets	828,463	1,006,382	(177,919)	(17.68%)	1,086,305	(79,923)	(7.36%)
Total Assets	2,302,278	2,571,427	(269,149)	(10.47%)	2,686,315	(114,888)	(4.28%)
Long-Term Liabilities	-	-	-	-	-	-	-
Other Liabilities	660,833	597,021	63,812	10.69%	461,990	135,031	29.23%
Total Liabilities	660,833	597,021	63,812	10.69%	461,990	135,031	29.23%
Net Assets							
Invested in Capital Assets,							
Net of Related Debt	1,473,815	1,565,045	(91,230)	(5.83%)	1,600,010	(34,965)	(2.19%)
Restricted	91,123	57,800	(34,923)	(60.43%)	126,272	(126,272)	(100.00%)
Unrestricted	76,507	351,561	(276,654)	(78.70%)	498,043	(88,682)	(17.81%)
Total Net Assets	\$ 1,641,445	\$ 1,974,406	(\$ 332,961)	(16.87%)	\$ 2,224,325	(\$ 249,919)	(11.24%)

Net Assets

The District's financial condition declined from the previous year. During 2010 the District's net assets decreased by \$332,961.

**West Custer County Hospital District
Management's Discussion and Analysis (Continued)
For the years ended December 31, 2010, 2009 and 2008**

Net Assets (Continued)

As shown in the above table, the District's total net assets decreased by \$332,961 resulting primarily from a decrease in program revenue and an increase in program expenses.

The District current liabilities which consist of accounts payable, a line of credit, and various accruals, increased from 2009 in the amount of \$63,812 as shown in the above table. At December 31, 2010 the outstanding balance on the line of credit was \$95,232.

The net assets of the District are reported in three categories. At December 31, 2010, \$1,473,815 was invested in capital assets, net of related debt. This represents capital assets being used in the District's operations which are not available otherwise available for appropriation since they do not represent liquid resources which could be spent. Total restricted assets of \$91,123 consist of \$39,000 for the emergency reserve required by the provisions of TABOR and \$52,123 for grant awards that have not been spent. Unrestricted net assets represent those which are not restricted by external requirements on their use or are otherwise unavailable by their nature.

Capital Expenditures

During 2010, the District expended \$97,383 in capital asset additions. The additions consisted of several items of medical and office equipment as well as building improvements.

Long Term Debt

The District had no long-term debt outstanding as of December 31, 2010, 2009, or 2008. The only non-current liability related to accrued compensated absences.

Budget Highlights and Future Projects of the District

- The District has made application to convert from a Rural Health Center to a Federally Qualified Health Center.
- The District is participating with providers in Fremont and Pueblo counties to interface their electronic medical records.
- The Clinic is part of a national pilot program to become a "medical home". This is a pilot in five states and is funded by the Commonwealth Fund in Philadelphia.

Request for Information

This financial report is designed to provide a general overview of the District's finances for those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

West Custer County Hospital District
Attention: Finance Officer
P.O. Box 120
Westcliffe, Colorado 81252

Basic Financial Statements

STATEMENTS OF NET ASSETS
WEST CUSTER COUNTY HOSPITAL DISTRICT
December 31, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>	<u>Liabilities and Net Assets</u>	
			<u>2010</u>	<u>2009</u>
Current Assets				
Cash and equivalents	\$ 46,129	\$ 35,698	\$ 101,543	\$ 49,370
Certificates of deposit	160,289	157,601	2,502	3,993
Receivables, net of allowance	95,401	266,940	1,527	-
Grant receivable	960	25,995	20,831	15,609
Taxes receivable	22	3,322	95,232	91,000
Inventories	70,161	69,313	439,198	437,049
Prepaid expenses	16,303	10,464		
Accrued property taxes - contra	439,198	437,049		
Total Current Assets	<u>828,463</u>	<u>1,006,382</u>	<u>660,833</u>	<u>597,021</u>
Noncurrent Assets				
Capital assets:				
Land	207,842	207,842	1,473,815	1,565,045
Building and improvements	1,202,643	1,139,557		
Furniture and equipment	868,081	833,784	39,000	40,600
Vehicles	369,389	369,389	52,123	17,200
Less accumulated depreciation	<u>(1,174,140)</u>	<u>(985,527)</u>	<u>76,507</u>	<u>351,561</u>
Total Noncurrent Assets	<u>1,473,815</u>	<u>1,565,045</u>	<u>1,641,445</u>	<u>1,974,406</u>
Total Assets	<u>\$ 2,302,278</u>	<u>\$ 2,571,427</u>	<u>\$ 2,302,278</u>	<u>\$ 2,571,427</u>
			Total Liabilities and Net Assets	
			<u>\$ 2,302,278</u>	<u>\$ 2,571,427</u>

The accompanying notes to financial statements are an integral part of this statement.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

WEST CUSTER COUNTY HOSPITAL DISTRICT

For the Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Patient fees	\$ 826,564	\$ 816,684
Ambulance fees	350,790	310,889
Therapy fees	173,783	147,899
X-Ray fees	19,268	20,560
Lab fees	81,171	89,797
Pharmacy fees	25,142	30,750
Optometry fees	8,123	9,894
Home care fees	7,633	-
Administrative adjustments	<u>(715,109)</u>	<u>(550,275)</u>
Total Operating Revenues	<u>777,365</u>	<u>876,198</u>
Operating Expenses		
Administration	437,056	427,544
Ambulance service	325,188	286,093
Central service and supply	133,894	176,990
HCBS and home care visits	794	223
Laboratory	81,078	77,257
Maintenance and operation	67,835	63,916
Medical	631,283	658,827
Pharmacy	17,628	23,123
Therapy	83,986	71,478
X-Ray	19,998	21,093
Optometry	<u>10,825</u>	<u>11,575</u>
Total Operating Expenses	<u>1,809,565</u>	<u>1,818,119</u>
Operating Loss	<u>(1,032,200)</u>	<u>(941,921)</u>
Nonoperating Revenue (Expenses)		
General property tax	438,940	402,015
Specific ownership tax	48,682	51,883
Grant revenue	74,866	30,649
Investment income	3,079	4,599
Other non-operating revenue	53,739	30,511
Contributions	54,283	81,198
Interest expense	(4,069)	(375)
Treasurer collection fees	<u>(21,788)</u>	<u>(19,969)</u>
Total Nonoperating Revenues	<u>647,732</u>	<u>580,511</u>
Income (Loss) Before Capital Contributions	<u>(384,468)</u>	<u>(361,410)</u>
Capital Contributions	<u>51,507</u>	<u>111,491</u>
Change in Net Assets	<u>(332,961)</u>	<u>(249,919)</u>
Total Net Assets - Beginning	<u>1,974,406</u>	<u>2,224,325</u>
Total Net Assets - Ending	<u>\$ 1,641,445</u>	<u>\$ 1,974,406</u>

The accompanying notes to financial statements are an integral part of this statement.

STATEMENTS OF CASH FLOWS
WEST CUSTER COUNTY HOSPITAL DISTRICT
For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Cash received from customers	\$ 965,704	\$ 994,690
Cash payments to suppliers for goods and services	(512,647)	(712,845)
Cash payments to employees for services	(1,075,888)	(1,002,869)
Net Cash Used by Operating Activities	<u>(622,831)</u>	<u>(721,024)</u>
Cash Flows From Noncapital Financing Activities		
Cash received from property taxes	490,922	454,440
Cash paid for treasurers fees	(21,788)	(19,969)
Cash received from contributions, grants, and fundraisers	129,184	111,567
Cash received from line of credit	5,000	130,170
Cash paid on line of credit	(768)	(39,170)
Cash paid for interest expense on line of credit	(2,542)	(375)
Other nonoperating revenue	53,739	30,511
Net Cash Provided by Noncapital Financing Activities	<u>653,747</u>	<u>667,174</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	(97,383)	(145,654)
Cash received from capital grants	76,507	86,491
Proceeds from sale of capital assets	-	-
Net Cash Used by Capital and Related Financing Activities	<u>(20,876)</u>	<u>(59,163)</u>
Cash Flows from Investing Activities		
Matured certificates of deposit	-	189,552
Purchased certificates of deposit	(2,688)	(163,059)
Investment income	3,079	5,875
Net Cash Provided by Investing Activities	<u>391</u>	<u>32,368</u>
Net Increase (Decrease) in Cash and Cash Equivalents	10,431	(80,645)
Cash and Cash Equivalents - Beginning	<u>35,698</u>	<u>116,343</u>
Cash and Cash Equivalents - Ending	<u>\$ 46,129</u>	<u>\$ 35,698</u>
Supplemental Schedule of Cash Flow		
Cash paid for interest	<u>\$ 2,542</u>	<u>\$ 375</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (1,032,200)	\$ (941,921)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	188,613	180,618
(Increase) decrease in:		
Accounts receivable	171,539	57,892
Inventory	(848)	(25,268)
Prepaid expense	(5,839)	(532)
Increase (decrease) in:		
Accounts payable	52,173	10,005
Accrued expenses	3,731	(1,818)
Net Cash Used by Operations	<u>\$ (622,831)</u>	<u>\$ (721,024)</u>

The accompanying notes to financial statements are an integral part of this statement.

Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
WEST CUSTER COUNTY HOSPITAL DISTRICT
December 31, 2010 and 2009

Note A - Summary of Significant Accounting Policies

Reporting Entity

The West Custer County Hospital District is organized under the laws of the State of Colorado. It operates under the jurisdiction of a local board of directors whose members are elected by the voters of the District. The formation of the District was approved by the voters in 1988, and it subsequently began operations on January 1, 1989. Prior to the formation of the District, medical services in Custer County were provided by the Custer County Medical Foundation, a non-profit organization. The Foundation transferred all its net assets to the District effective December 31, 1988 and was subsequently liquidated. The total net assets transferred at that time were \$127,224.

The District (the primary government) presents its financial statements in accordance with generally accepted accounting principles, as they apply to governmental units. The financial statements of the District consist only of its sole enterprise fund for medical services. The District has no other funds or account groups. There are no component units as defined in Governmental Accounting Standards Board Statement 14, which are included in the District's reporting entity.

As allowed by GASB, the district has elected not to apply FASB standards issued after November 30, 1989 for its proprietary fund, and has chosen to follow FASB standards issued on or before that date.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue when all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing goods and services in connection with a proprietary fund's ongoing operations. The primary source of revenue is patient and medical fees. Operating expenses are reported in functional categories for ambulance service, central service and supply, home care services, laboratory, maintenance and operation, medical, pharmacy, therapy, X-ray, and administrative expenses and include depreciation on capital assets. Other revenues or expenses not meeting this definition are treated as nonoperating revenues and expenses. The principal nonoperating revenues are property and ownership taxes and grant revenue. The principal nonoperating expenses of the District include treasurer collection fees.

All assets and liabilities, both current and noncurrent, are included in the statement of net assets of proprietary funds.

Use of Estimates

The use of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The statement of cash flows focuses on the change in cash and cash equivalents during the period. Cash equivalents are short-term, liquid investments (including restricted assets) that are quickly converted to known cash amounts and that have maturities of three months or less so as to minimize the risk of value changes.

NOTES TO FINANCIAL STATEMENTS (Continued)
WEST CUSTER COUNTY HOSPITAL DISTRICT
 December 31, 2010 and 2009

Note A - Summary of Significant Policies (Continued)

Receivables

All receivables are reported at their face value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Accounts receivable consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
Patient fees, net of allowance for doubtful accounts of \$59,816 and \$43,647	\$ 79,680	\$ 142,244
Ambulance fees, net of allowance for doubtful accounts of \$70,442 and \$15,050	<u>15,721</u>	<u>124,696</u>
Total Accounts Receivable	<u>\$ 95,401</u>	<u>\$ 266,940</u>

Inventory

Purchased inventory of the District is stated at cost using the first in, first out method of determining inventory on hand. Physical counts were made of all inventory as of December 31, 2010 and 2009. Inventory was adjusted to reflect the amount determined by physical count.

Capital Assets

Land, building & equipment are stated at cost or, in the case of donated assets, at the fair market value on the date of donation.

Interest costs associated with the construction or purchase of land, building & equipment are capitalized if the amounts are material to the general purpose financial statements.

Buildings and equipment are depreciated using straight-line depreciation based upon the following useful lives:

Buildings and improvements	15 - 39 years
Furniture and equipment	3 - 5 years
Vehicles	7 years

Property Taxes

Property taxes are levied on January 1 based on the assessed value of property as listed on the previous June 30, and are payable in two equal payments before the last day of February and the 15th day of June or in one full payment before the last day of April. Property taxes are recognized as revenue when they are levied because they are considered to be both measurable and available. Available means due or past due and receivable within the current period and collected no more than 60 days after December 31.

Accounts Payable

Accounts payable represent obligations due to vendors for goods delivered or services rendered prior to December 31.

NOTES TO FINANCIAL STATEMENTS (Continued)
WEST CUSTER COUNTY HOSPITAL DISTRICT
December 31, 2010 and 2009

Note A - Summary of Significant Policies (Continued)

Compensated Absences

Vacation leave is earned on a monthly basis. The amount of vacation leave varies between five and fifteen days per year depending upon the number of years of continuous service provided by the employee. Employees are allowed to accumulate 120 hours per employee, which must be used by the end of the following calendar year, or it will be lost. Any unused, vested vacation time will be paid to the employee upon termination. Accrued vacation as of December 31, 2010 and 2009 was \$20,831 and \$15,609, respectively. The vacation accrual is considered a current liability.

The physician for the clinic earns paid time off under a separate contractual agreement. The current contract allows for 28 days per year. The total accrual at December 31, 2010 and 2009 is \$0 and \$0, respectively.

The District's sick leave policy provides for an unlimited accumulation of earned sick leave which varies between five and ten days per year depending upon the number of years of continuous service provided by the employee. However, sick leave does not vest. Since the District has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

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. The District carries commercial insurance for such risks, including workers' compensation. Settled claims resulting from these risks did not exceed commercial insurance coverage during 2010 or 2009.

Concentration of Credit Risk

The District grants credit without collateral to its clients, most of whom are local residents and are insured under third-party payer agreements. The District has adjusted accounts receivables for all known uncollectible accounts and maintains an allowance for doubtful accounts which is adjusted based on the District's collection experience.

Deferred Compensation Plan

The District offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. Effective January 1, 1997, the District no longer has a fiduciary responsibility to the plan. The District has implemented the Governmental Accounting Standards Board (GASB) Statement #32.

Note B - Stewardship, Compliance and Accountability

Tax, Revenue, Spending, and Debt Limitation

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR imposes tax raising, revenue, spending, and debt limitations on local government entities within the State of Colorado. These limitations became effective for the first fiscal year beginning after December 31, 1992.

In addition to the tax raising, revenue, spending, and debt limitation provisions of TABOR, there is also a requirement that every entity to which TABOR applies must establish an "emergency reserve". To be used for declared emergencies only, each entity shall reserve 3% or more of its fiscal year spending excluding bonded debt service. For the years ended December 31, 2010 and 2009, the District has reserved \$39,000 and \$40,600, which represents 3% of fiscal year spending.

NOTES TO FINANCIAL STATEMENTS (Continued)
WEST CUSTER COUNTY HOSPITAL DISTRICT
December 31, 2010 and 2009

Note B - Stewardship, Compliance and Accountability (Continued)

Tax, Revenue, Spending, and Debt Limitation (Continued)

On May 7, 1996, the District passed a referendum regarding the revenue and spending limits imposed by Article X, section 20 of the Colorado constitution. The referendum allows the District, without increasing or adding any taxes of any kind, to collect, retain, and expend all revenues and other funds collected during 1995 and thereafter. In addition, May 2, 2002, the voters approved an additional 2.113 mills to the property tax levy for the purpose of providing for additional staff and other operating costs.

Budgetary Data

Formal budgetary accounting is employed as a management control tool for the enterprise fund of the District. Annual operating budgets are adopted each year by approval of the Board of Directors. The Board of the District may amend the original adopted budget during the year by passing a new resolution to reflect current needs, changing conditions, or revised estimates. Differences between the budgetary reporting basis and the generally accepted accounting principles (GAAP) basis used to reflect actual revenues and expenses are described below.

The financial statements report actual revenues and expenses on a generally accepted accounting principles (GAAP) basis which differs from the legally enacted budget basis. The differences are as follows:

1. Accruals for compensated absences are not recognized on the budgetary basis and are treated as expenses on the GAAP basis.
2. Capital expenditures are treated as expenses on the budgetary basis. On the GAAP basis, capital expenditures are not treated as expenses.

All appropriations lapse at the end of each year, and the District does not recognize encumbrances.

Expenditures in Excess of Budget Amounts

During the year ended December 31, 2010 the District incurred actual expenditures in excess of budget expenditures.

<u>Actual</u>	<u>Budget</u>	<u>Actual Over Budget</u>
\$ 1,927,583	\$ 1,887,601	\$ 39,982

Expenditures in excess of amounts budgeted and appropriated may be a violation of Colorado Local Government Budget Law.

Grant Funding

The District receives funding from Federal, State and foundation grants which may be subject to regulatory or other oversight by the granting agencies. Such oversight may include audit or other compliance procedures. Any adjustments made by a granting agency would become a liability to the District. There are no such proceedings presently in progress.

Note C - Cash Deposits and Investments

Cash Deposits

Colorado State statutes govern the District's deposits of cash. The statutes specify eligible depositories for public cash deposits which must be Colorado institutions and must maintain federal insurance (FDIC or FSLIC) on deposits held.

NOTES TO FINANCIAL STATEMENTS (Continued)
WEST CUSTER COUNTY HOSPITAL DISTRICT
 December 31, 2010 and 2009

Note C - Cash Deposits and Investments (Continued)

Cash Deposits (Continued)

Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets maintained by another institution or held in trust for all of its local government depositors as a group with a market value at least equal to the uninsured deposits. The State regulatory commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pool.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy for custodial credit risk parallels Colorado statutes.

A summary of cash and deposits held at year end follows:

	<u>Carrying Amount</u>	<u>Less Than One Year</u>	<u>Less Than Five Years</u>
Deposits:			
Checking	\$ 45,778	\$ 45,778	\$ -
Certificates of deposits	160,289	160,289	-
Petty cash	351	351	-
Total	<u>\$ 206,418</u>	<u>\$ 206,418</u>	<u>\$ -</u>

The District maintains cash in two different commercial banks, cash in these accounts at December 31, 2010 and at other times through out the year exceeded \$250,000.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The law outlines the types of securities that public entities in Colorado may acquire and hold as investments.

These include U.S. government and agency securities, certain bonds of political subdivisions, bankers' acceptances, commercial paper, local government investment pools, repurchase agreements, money market funds and guaranteed insurance contracts. The statute also includes a provision limiting any investment to a five year maturity unless the governing body authorizes a longer period.

Interest Rate Risk - The District's policy of limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates parallels Colorado statutes. Specifically, all securities are limited to a maximum maturity of five years from the date of purchase unless the governing body authorizes a longer period.

Credit Risk - The District does not have a policy that would further limit its choices beyond the requirements of Colorado statutes.

The District did not hold any such investments at December 31, 2010 or 2009.

NOTES TO FINANCIAL STATEMENTS (Continued)
WEST CUSTER COUNTY HOSPITAL DISTRICT
December 31, 2010 and 2009

Note D - Property Tax and Accrual

Property taxes which have been levied for 2010 which will not be collected until 2011 have been accrued as a receivable at December 31, 2010. An offsetting liability for deferred property tax revenue has been recorded on the balance sheet.

Note E - Changes in Capital Assets

The following is a summary of the changes in capital assets for the year ended December 31, 2010.

	December 31, 2009	Additions	Deletions	December 31, 2010
Land	\$ 207,842	\$ -	\$ -	\$ 207,842
Building and improvements	1,139,557	63,086	-	1,202,643
Furniture and equipment	833,784	34,297	-	868,081
Vehicles	<u>369,389</u>	<u>-</u>	<u>-</u>	<u>369,389</u>
Totals	\$ 2,550,572	<u>\$ 97,383</u>	<u>\$ -</u>	\$ 2,647,955
Less depreciation	<u>(985,527)</u>			<u>(1,174,140)</u>
Net Capital Assets	<u>\$ 1,565,045</u>			<u>\$ 1,473,815</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$188,613 and \$180,618, respectively. Accumulated depreciation for the years ended December 31, 2010 and 2009 was \$1,174,140 and \$985,527, respectively.

Note F - Line of Credit

The District has a line of credit of \$138,000 with a stated interest rate of 3.70%. The line of credit expires October 28, 2011 with interest payments due quarterly. It is collateralized by a certificate of deposit held with the lender. As of December 31, 2010 and 2009 the balance was \$95,232 and \$91,000 respectively.

Note G - Net Assets

The basic financial statements utilize a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in capital assets (net of related debt) is intended to reflect the portion of the net assets that are associated with non-liquid, capital assets, less outstanding capital asset related debt.

Restricted net assets are amounts that have third-party limitation on their use. As of December 31, 2010 and 2009 restricted net assets consisted of \$39,000 and \$40,600 for TABOR and \$52,123 and \$17,200 for grant awards from Colorado Health Foundation that had not been spent. The TABOR reserve represents 3% of fiscal year spending required by Amendment 1 (TABOR) for declared emergencies.

Unrestricted net assets are amounts that do not meet the definition of "invested in capital assets" or "restricted assets" and are available for the District's operations.

Other Supplementary Information

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

BUDGET BASIS - BUDGET AND ACTUAL
WEST CUSTER COUNTY HOSPITAL DISTRICT
 For the year ended December 31, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>2010 Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues				
Patient fees (less administrative adjustments)	\$ 559,152	\$ 559,152	\$ 393,132	\$ (166,020)
Ambulance fees (less administrative adjustments)	228,045	228,045	72,385	(155,660)
HCBS fees (less administrative adjustments)	-	-	7,633	7,633
Therapy fees	96,683	96,683	173,783	77,100
X-Ray fees	20,098	20,098	19,268	(830)
Lab fees	84,915	84,915	81,171	(3,744)
Pharmacy fees	31,806	31,806	25,142	(6,664)
Optometry services	14,036	14,036	4,851	(9,185)
Total Revenues	<u>1,034,735</u>	<u>1,034,735</u>	<u>777,365</u>	<u>(257,370)</u>
Nonoperating Revenues				
General property tax	437,049	437,049	438,940	1,891
Specific ownership tax	54,000	54,000	48,682	(5,318)
Grant revenue	59,000	188,337	126,373	(61,964)
Investment income	5,000	5,000	3,079	(1,921)
Contributions	60,000	60,000	54,283	(5,717)
Other non-operating revenue	27,644	27,644	53,739	26,095
Total Nonoperating Revenues	<u>642,693</u>	<u>772,030</u>	<u>725,096</u>	<u>(46,934)</u>
Total Revenues	<u>1,677,428</u>	<u>1,806,765</u>	<u>1,502,461</u>	<u>(304,304)</u>
Operating Expenses				
Administration				
Salaries and employee benefits	344,923	344,923	392,437	(47,514)
Payroll taxes	37,296	37,296	22,819	14,477
Supplies	6,000	6,000	8,929	(2,929)
Professional services	1,500	1,500	599	901
Marketing	10,140	10,140	5,786	4,354
Travel	-	-	892	(892)
Staff meetings	-	-	1,876	(1,876)
Training	200	200	3,074	(2,874)
Total Administration	<u>400,059</u>	<u>400,059</u>	<u>436,412</u>	<u>(36,353)</u>
Ambulance Service				
Salaries and employee benefits	113,200	113,200	147,615	(34,415)
Payroll taxes	-	-	10	(10)
Supplies	27,000	27,000	31,673	(4,673)
Professional services	600	600	744	(144)
Marketing	250	250	-	250
Repairs and maintenance	550	550	1,760	(1,210)
Travel	5,000	5,000	5,861	(861)
Insurance	5,725	5,725	5,725	-
Rent	1,800	1,800	1,500	300
Training	2,500	2,500	10,694	(8,194)
Depreciation	95,965	95,965	99,660	(3,695)
Bad debts	21,000	21,000	11,000	10,000
Collection costs	2,500	2,500	2,069	431
Telephone	2,000	2,000	2,741	(741)
Utilities	4,300	4,300	4,136	164
Total Ambulance Service	<u>282,390</u>	<u>282,390</u>	<u>325,188</u>	<u>(42,798)</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BUDGETARY BASIS -

BUDGET AND ACTUAL (Continued)

WEST CUSTER COUNTY HOSPITAL DISTRICT

For the year ended December 31, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>2010 Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Central Service and Supply				
Supplies	\$ 4,000	\$ 4,000	\$ 5,906	\$ (1,906)
Repairs and maintenance	-	-	661	(661)
Telephone	10,000	10,000	11,319	(1,319)
Postage	3,500	3,500	3,787	(287)
Professional services	38,600	38,600	65,632	(27,032)
Collection costs	2,000	2,000	2,950	(950)
Travel	1,500	1,500	2,080	(580)
Insurance	8,150	8,150	8,020	130
Publicity, subscriptions, dues	3,000	3,000	2,293	707
Depreciation	30,373	30,373	30,373	-
Bad debts	10,800	10,800	5,800	5,000
Training	2,000	2,000	(4,927)	6,927
Total Central and Supply	<u>113,923</u>	<u>113,923</u>	<u>133,894</u>	<u>(19,971)</u>
HCBS and Home Care Visits				
Salaries and employee benefits	-	-	642	(642)
Payroll taxes	-	-	14	(14)
Travel	-	-	138	(138)
Total HCBS	<u>-</u>	<u>-</u>	<u>794</u>	<u>(794)</u>
Laboratory				
Salaries	25,726	25,726	17,858	7,868
Payroll taxes	2,019	2,019	1,529	490
Supplies	33,000	33,000	32,099	901
Professional services	9,000	9,000	10,456	(1,456)
Depreciation	11,986	11,986	11,986	-
Repairs and maintenance	4,800	4,800	7,150	(2,350)
Total Laboratory	<u>86,531</u>	<u>86,531</u>	<u>81,078</u>	<u>5,453</u>
Maintenance and Operation				
Salaries	20,606	20,606	14,835	5,771
Payroll taxes	1,196	1,196	1,216	(20)
Supplies	2,500	2,500	3,464	(964)
Repairs and maintenance	2,000	2,000	3,906	(1,906)
Professional services	920	920	1,105	(185)
Depreciation	26,423	26,423	26,423	-
Utilities	15,000	15,000	16,658	(1,658)
Total Maintenance and Operation	<u>68,645</u>	<u>68,645</u>	<u>67,607</u>	<u>1,038</u>
Medical				
Salaries	549,467	549,467	517,888	31,579
Payroll taxes	18,641	18,641	22,064	(3,423)
Supplies	26,000	26,000	23,513	2,487
Immunization cost	14,000	14,000	13,811	189
Repairs and maintenance	1,000	1,000	1,239	(239)
Professional services	2,800	2,800	4,365	(1,565)
Insurance	23,205	23,205	23,171	34
Rent	6,300	6,300	6,450	(150)
Publicity, subscriptions, dues	1,750	1,750	2,129	(379)
Depreciation	7,395	7,395	7,395	-
Training and travel	4,500	4,500	4,908	(408)
Total Medical	<u>655,058</u>	<u>655,058</u>	<u>626,933</u>	<u>28,125</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS BUDGETARY BASIS -
BUDGET AND ACTUAL (Continued)
WEST CUSTER COUNTY HOSPITAL DISTRICT
For the year ended December 31, 2010

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>2010 Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Pharmacy				
Supplies	\$ 23,000	\$ 23,000	\$ 17,628	\$ 5,372
Total Pharmacy	<u>23,000</u>	<u>23,000</u>	<u>17,628</u>	<u>5,372</u>
Therapy				
Salaries	65,280	65,280	74,311	(9,031)
Payroll taxes	3,925	3,925	5,268	(1,343)
Supplies	900	900	1,913	(1,013)
Training	-	-	604	(604)
Marketing	-	-	225	(225)
Depreciation	1,329	1,329	1,329	-
Travel	200	200	336	(136)
Total Therapy	<u>71,634</u>	<u>71,634</u>	<u>83,986</u>	<u>(12,352)</u>
X-Ray				
Salaries	6,431	6,431	7,066	(635)
Payroll taxes	505	505	562	(57)
Supplies	1,000	1,000	859	141
Repairs and maintenance	100	100	1,178	(1,078)
Professional services	1,700	1,700	1,462	238
Depreciation	8,130	8,130	8,871	(741)
Publicity, subscriptions, dues	1,000	1,000	-	1,000
Total X-Ray	<u>18,866</u>	<u>18,866</u>	<u>19,998</u>	<u>(1,132)</u>
Optometry				
Contract labor	9,000	9,000	8,250	750
Depreciation	2,575	2,575	2,575	-
Total Optometry	<u>11,575</u>	<u>11,575</u>	<u>10,825</u>	<u>750</u>
Total Operating Expenses	<u>1,731,681</u>	<u>1,731,681</u>	<u>1,804,343</u>	<u>(72,662)</u>
Nonoperating Expenditures				
Treasurer collection fees	21,853	21,853	21,788	65
Capital outlay	3,730	133,067	97,383	35,684
Other non operating	1,000	1,000	4,069	(3,069)
Total Nonoperating Expenditures	<u>26,583</u>	<u>155,920</u>	<u>123,240</u>	<u>32,680</u>
Total Expenditures	<u>1,758,264</u>	<u>1,887,601</u>	<u>1,927,583</u>	<u>(39,982)</u>
Excess of Revenues Over (Under) Expenditures (Budgetary Basis)	(80,836)	(80,836)	(425,122)	(344,286)
Funds Available - Beginning of Year	<u>131,910</u>	<u>131,910</u>	<u>1,171,160</u>	<u>1,039,250</u>
Funds Available - End of Year	<u>\$ 51,074</u>	<u>\$ 51,074</u>	<u>\$ 746,038</u>	<u>\$ 694,964</u>

The accompanying notes to financial statements are an integral part of this schedule.

BUDGET RECONCILIATION
WEST CUSTER COUNTY HOSPITAL DISTRICT
December 31, 2010

Reconciliation From Budgetary Basis to GAAP Basis of Accounting

Revenue (Budgetary and GAAP Basis)	<u>\$ 1,502,461</u>
Expenditures (Budgetary Basis)	1,927,583
Plus:	
Change in vacation leave accrual	5,222
Less:	
Capital outlay	<u>(97,383)</u>
Expenditures (GAAP Basis)	<u>1,835,422</u>
Net Income	<u>\$ (332,961)</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULES OF OPERATING EXPENSES - BY DEPARTMENT

WEST CUSTER COUNTY HOSPITAL DISTRICT

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Administration		
Salaries and employee benefits	\$ 393,081	\$ 383,591
Payroll taxes	22,819	23,481
Supplies	8,929	10,493
Professional services	599	-
Marketing	5,786	9,804
Travel	892	-
Staff meetings	1,876	-
Training	3,074	175
Total Administration	<u>437,056</u>	<u>427,544</u>
Ambulance Service		
Salaries and employee benefits	147,615	118,663
Payroll taxes	10	3,086
Supplies	31,673	1,924
Professional services	744	1,030
Marketing	-	149
Repairs and maintenance	1,760	2,381
Travel	5,861	6,203
Insurance	5,725	3,205
Rent	1,500	1,800
Training	10,694	10,215
Depreciation	99,660	89,874
Bad debts	11,000	39,000
Collection costs	2,069	2,442
Telephone	2,741	2,327
Utilities	4,136	3,794
Total Ambulance Service	<u>325,188</u>	<u>286,093</u>
Central Service and Supply		
Supplies	5,906	4,889
Repairs and maintenance	661	413
Telephone	11,319	10,828
Postage	3,787	3,757
Professional services	65,632	72,168
Collection costs	2,950	1,474
Travel	2,080	1,206
Insurance	8,020	7,498
Publicity, subscriptions, dues	2,293	9,274
Training	(4,927)	8,447
Depreciation	30,373	35,436
Bad debts	5,800	21,600
Total Central and Supply	<u>133,894</u>	<u>176,990</u>
HCBS and Home Care Visits		
Salaries and employee benefits	642	220
Payroll taxes	14	-
Travel	138	-
Supplies	-	3
Total HCBS	<u>794</u>	<u>223</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULES OF OPERATING EXPENSES - BY DEPARTMENT (Continued)

WEST CUSTER COUNTY HOSPITAL DISTRICT

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Laboratory		
Salaries	\$ 17,858	\$ 24,570
Payroll taxes	1,529	2,009
Supplies	32,099	33,948
Professional services	10,456	8,525
Repairs and maintenance	7,150	(4,150)
Depreciation	11,986	12,355
Total Laboratory	<u>81,078</u>	<u>77,257</u>
Maintenance and Operation		
Salaries	15,063	14,743
Payroll taxes	1,216	1,204
Supplies	3,464	3,655
Repairs and maintenance	3,906	1,623
Professional services	1,105	793
Utilities	16,658	15,569
Depreciation	26,423	26,329
Total Maintenance and Operation	<u>67,835</u>	<u>63,916</u>
Medical		
Salaries	522,238	459,173
Payroll taxes	22,064	20,725
Contract labor	-	5,463
Supplies	23,513	30,353
Immunization cost	13,811	22,702
Repairs and maintenance	1,239	1,668
Professional services	4,365	75,572
Insurance	23,171	21,965
Rent	6,450	8,946
Publicity, subscriptions, dues	2,129	2,907
Training and travel	4,908	3,989
Depreciation	7,395	5,364
Total Medical	<u>631,283</u>	<u>658,827</u>
Pharmacy		
Supplies	17,628	23,123
Total Pharmacy	<u>17,628</u>	<u>23,123</u>
Therapy		
Salaries	74,311	64,361
Payroll taxes	5,268	4,903
Supplies	1,913	1,562
Marketing	225	-
Training	604	-
Depreciation	1,329	544
Travel	336	108
Total Therapy	<u>83,986</u>	<u>71,478</u>

The accompanying notes to financial statements are an integral part of this schedule.

SCHEDULES OF OPERATING EXPENSES - BY DEPARTMENT (Continued)

WEST CUSTER COUNTY HOSPITAL DISTRICT

For the years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
X-Ray		
Salaries	\$ 7,066	\$ 5,808
Payroll taxes	562	461
Supplies	859	673
Repairs and maintenance	1,178	-
Professional services	1,462	6,009
Depreciation	8,871	8,142
Total X-Ray	<u>19,998</u>	<u>21,093</u>
Optometry		
Contract labor	8,250	9,000
Depreciation	2,575	2,575
Total Optometry	<u>10,825</u>	<u>11,575</u>
Total Operating Expenses	<u>\$ 1,809,565</u>	<u>\$ 1,818,119</u>

The accompanying notes to financial statements are an integral part of this schedule.