

**EAST MORGAN COUNTY
HOSPITAL DISTRICT**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2016



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EAST MORGAN COUNTY HOSPITAL DISTRICT
AUDITED FINANCIAL STATEMENTS
December 31, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
East Morgan County Hospital District
Brush, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and the major fund of the East Morgan County Hospital District as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and the major fund of the East Morgan County Hospital District as of December 31, 2016 and, the respective changes in financial position thereof and the respective budgetary comparison for the General for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Combined Schedule of Cash and Investments are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combined Schedule of Cash and Investments is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combined Schedule of Cash and Investments is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Fort Morgan, Colorado
May 1, 2017

EAST MORGAN COUNTY HOSPITAL DISTRICT
STATEMENT OF NET POSITION
As of December 31, 2016

	Primary	Component Unit
	Governmental	East Morgan
	Activities	County Hospital Foundation
Assets		
Current Assets		
Cash in bank and savings	\$ 874,213	\$ 90,123
Cash with County Treasurer	6,646	-
Certificate of deposit	1,726,441	313,044
Accounts receivable	18,943	225
Pledges receivable	-	584
Accrued interest revenue	803	115
Investments	1,852,728	656,787
Total Current Assets	4,479,774	1,060,878
Long-term Assets		
Capital Assets		
Nondepreciable Assets		
Land	1,099,373	-
Depreciable Assets		
Buildings and Improvements	12,128,640	4,150
Fixed Equipment	15,811,384	-
Major Moveable Equipment	9,450,149	500
Construction in Progress	29,987	-
Total Depreciable Assets	37,420,160	4,650
Less: Depreciation	(14,418,533)	(846)
Net Depreciable Assets	23,001,627	3,804
Net Capital Assets	24,101,000	3,804
Endowment Assets		
Certificate of Deposit	-	35,000
Total Assets	28,580,774	1,099,682
Deferred Outflows of Resources		
General property taxes receivable	1,035,838	-
Liabilities		
Current Liabilities		
Accounts payable	22,021	2,713
Accrued interest expense	29,169	-
Unearned contribution revenue - current portion	633,333	-
Total Current Liabilities	684,523	2,713
Long-term Liabilities		
Long-term portion of unearned contribution revenue	6,175,001	-
General obligation bonds	6,595,000	-
Less: Unamortized debt issuance costs	(173,406)	-
Net General Obligation Bonds	6,421,594	-
Total Liabilities	13,281,118	2,713
Deferred Inflows of Resources		
Deferred tax revenues	1,035,838	-
Net Position		
Net investment in capital assets	24,101,000	
Restricted		
Emergency reserve (TABOR)	26,000	
Restricted for capital purchases	496,095	
Other purposes		35,000
Temporarily Restricted		273,412
Unrestricted	(9,323,439)	788,557
Total Net Position	\$ 15,299,656	\$ 1,096,969

The accompanying notes and independent auditors' report should be read with these financial statements.

EAST MORGAN COUNTY HOSPITAL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

		Program Revenues		Primary Government Net Governmental Activities	Component Unit East Morgan County Hospital Foundation
Expenses	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental Activities: Public Health	\$ 2,520,908	\$ -	\$ 1,128,738	\$ (1,392,170)	
Component Unit: East Morgan County Hospital Foundation	\$ 63,237	\$ 63,792	\$ 57,554		\$ 58,109

General Revenues

Taxes:					
Property tax, levied for general purposes				1,048,225	
Specific ownership				100,981	
Gain (Loss) on disposal of assets				(628)	
Investment earnings				20,751	21,207
Unrealized gain on investments					21,933
Inter entity transfer				1,000	(1,000)
Total General Revenues				1,170,329	42,140
Change in Net Position				(221,841)	100,249
Net Position - Beginning of Year				15,521,497	996,720
Net Position - End of Year				\$ 15,299,656	\$ 1,096,969

The accompanying notes and independent auditors' report should be read with these financial statements.

EAST MORGAN COUNTY HOSPITAL DISTRICT
BALANCE SHEET
GENERAL FUND
As of December 31, 2016

	General Fund
ASSETS AND DEFERRED OUTFLOWS	
Cash in bank and savings	\$ 874,213
Cash with County Treasurer	6,646
Certificate of deposit	1,726,441
Related party receivable	18,943
Investments	1,852,728
Total Assets	4,478,971
 Deferred Outflows of Resources	
General property taxes receivable	1,035,838
Total Assets and Deferred Outflows of Resources	\$ 5,514,809
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 22,021
Unearned contribution revenues	6,808,334
Total Liabilities	6,830,355
 Deferred Inflows of Resources	
Deferred tax revenues	1,035,838
 Fund Balances	
Restricted	
Restricted for emergencies	26,000
Restricted for capital purchases	496,095
Unassigned	(2,873,479)
Total Fund Balance	(2,351,384)
Total Liabilities, Deferred Inflows and Fund Balance	\$ 5,514,809
-	
 Reconciliation between fund balances reported as governmental funds on the Balance Sheet and Net Position reported on the Statement of Net Position:	
Fund Balance	\$ (2,351,384)
Capital Assets used in governmental activities are not financial resources and therefore not recorded in the fund	24,101,000
Long-term liabilities, including general obligation bonds are not due and payable in the current period and, therefore, are not reported in the fund.	(6,421,594)
Interest is accrued on outstanding long-term debt and is not due and payable in the current period and, therefore, is not reported in the fund.	(29,169)
Accrued interest revenue is not a source of financial resources and is not reported in the fund.	803
Net Position of Governmental Activities	\$ 15,299,656

The accompanying notes and independent auditors' report should be read with these financial statements.

EAST MORGAN COUNTY HOSPITAL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2016

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance Favorable (Unfavorable)
Revenue				
Taxes (net treasurer's fees of \$21,388)	\$ 1,067,826	\$ 1,049,277	\$ 1,048,225	\$ (1,052)
Specific ownership	90,000	100,521	100,981	460
Interest and dividends	20,000	16,500	20,751	4,251
Contributions	-	400,310	1,128,738	728,428
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenue	1,177,826	1,566,608	2,298,695	732,087
Expenditures				
Current				
Legal and accounting	10,000	9,560	7,128	2,432
Board insurance	10,000	8,590	8,438	152
Repairs and maintenance	40,000	8,327	-	8,327
Other direct expense	10,000	1,900	2,075	(175)
Office expense	1,000	170	1,993	(1,823)
Consulting fees	44,000	91,261	94,493	(3,232)
Total Current Expenditures	<hr/> 115,000	<hr/> 119,808	<hr/> 114,127	<hr/> 5,681
Capital Outlay				
Equipment purchases	300,000	590,000	205,242	384,758
Expansion project	-	-	178,101	(178,101)
Total Capital Outlay	<hr/> 300,000	<hr/> 590,000	<hr/> 383,343	<hr/> 206,657
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	415,000	709,808	497,470	212,338
Revenues in Excess of Expenditures	762,826	856,800	1,801,225	944,425
Other Financing Sources (Uses)				
Debt issuance costs	-	(2,000)	-	2,000
Repayment on bond issuance				
Principal	(150,000)	(150,000)	(150,000)	-
Interest	(360,894)	(331,230)	(360,893)	(29,663)
Inter entity operating transfer	47,227	-	1,000	1,000
	<hr/>	<hr/>	<hr/>	<hr/>
Revenues and Other Financing Source in Excess of Expenditures	<u>\$ 299,159</u>	<u>\$ 373,570</u>	1,291,332	<u>\$ 917,762</u>
Fund Balance - Beginning of Year			<u>(3,642,716)</u>	
Fund Balance - End of Year			<u>\$ (2,351,384)</u>	

The accompanying notes and independent auditors'
report should be read with these financial statements.

EAST MORGAN COUNTY HOSPITAL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL
 FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2016

Amounts reported for Governmental Activities in the Statement of
 Activities are different because:

Net Change in Fund Balance of Governmental Fund \$ 1,291,332

Capital outlays to purchase or build capital assets are reported
 in governmental funds as expenditures. However, for governmental
 activities those costs are shown in the statement of net position
 and allocated over their estimated useful lives as annual depreciation
 expense in the statement of activities. This is the amount by which
 capital outlays exceeded depreciation expense in the period

Depreciation Expense	\$ (1,948,609)	
Capital Outlays	<u>383,343</u>	(1,565,266)

Revenues from interest are recorded when received for governmental funds
 whereas they are recognized when identifiable for governmental activities 492

In the statement of activities, certain operating expenses such as interest
 are measured by the amounts incurred during the year.
 In the governmental funds; however, expenditures for these items are measured
 by the amount of financial resources used (essentially, the amounts actually
 paid). This amount represents the net effect of interest payable on the
 statement of activities 494

Debt issuance costs associated with long-term notes payable are
 recognized as expenditures and other financing uses in the governmental
 funds at the time the debt is issued. However, these items are capitalized
 in the statement of activities and amortized over the life of the debt. This
 is the amount of amortization on debt issuance costs. (7,679)

In the statement of activities, only the gain on the sale of capital assets
 is reported, whereas in the governmental funds there is a reporting of
 financial resources. As a result, the change in net position differs from
 the change in fund balance by the net book value of the capital assets
 sold. 58,786

Change in Net Position of Governmental Activities \$ (221,841)

The accompanying notes and independent auditors'
 report should be read with these financial statements.

EAST MORGAN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of East Morgan County Hospital District have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following summary of significant accounting policies is presented to assist the reader in evaluating the District's financial statements.

A. Reporting Entity

East Morgan County Hospital District is a political subdivision of the State of Colorado governed by a five member board of directors. As required by generally accepted accounting principles, these financial statements present the East Morgan County Hospital District (the primary government) and its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable, or other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the District's financial statements to be misleading or incomplete. Based upon the forgoing criteria, the East Morgan County Hospital Foundation has been included as a component unit in the accompanying financial statements.

Discretely Presented Component Units

The East Morgan County Hospital Foundation, a Colorado non-profit corporation, was established to support the East Morgan County Hospital District through solicitation, acquisition, and acceptance of contributions, gifts, donations, bequests or other assets. The Foundation is controlled by a nine member board of directors. Five of these board members are also board members of the Hospital District.

The Foundation's financial activity is presented as a discretely presented component unit of the District. It is reported in separate column in the government-wide financial statements to emphasize that it is legally separate from the District. The governing body of the component unit is not appointed by the Board. The AICPA Audit and Accounting Guide titled Not-for-Profit Organizations prescribes a financial statement presentation for non-profit entities which differs from that followed by the District. The Foundation's financial statements consist of a Statement of Financial Position, Statement of Activities, and a Statement of Cash Flows. These financial statements have been modified for presentation in the District's financial statements to follow a presentation similar to that of a governmental entity.

Complete financial statements of the component unit may be obtained from:

East Morgan County Hospital Foundation, Inc.
242 Cambridge Street
Brush, CO 80723

B. Nature of Operations

The District provides medical/health care services for citizens in and around the community of Brush, Colorado.

C. Basis of Presentation and Accounting

Government-wide Financial Statements

Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities, including capital assets and long-term debt, are included in the accompanying Statement of Net Position.

EAST MORGAN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation and Accounting (Continued)

Government-wide Financial Statements (Continued)

The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct Expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Grant and contributions include revenue restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenue, Expenditures, and Changes in Fund Balances for all major governmental funds and aggregated non-major funds. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the Government-wide Financial Statements. The District has a single governmental fund, the general fund, which is a major fund.

D. Basis of Presentation and Accounting

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year end) are recognized when due.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt which is recognized when due.

When an expense is incurred for purposes for which there are both restricted and unrestricted net position available, it is the District's policy to apply those expenses to restricted net position to the extent such are available and then to unrestricted net position.

E. Budgets

The District adopts an annual budget for the general fund which is prepared on the cash basis of accounting. The District may authorize supplemental appropriations during the budget year. There were no supplemental appropriations during 2016. All budgetary appropriations lapse at year end.

EAST MORGAN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets (Continued)

Colorado statutes provide the following timetable which is followed in the adoption of budgets:

1. Submission of the proposed budget to the local governing body by October 15th of each year.
2. Certification of mill levies to the Board of County Commissioners by December 15th.
3. Final adoption of budget and appropriations by December 31st of each year.
4. Property taxes are due by April 30th of each year if paid in full, or in two installments due February 28th and June 15th of each year.
5. Liens are placed on property for which taxes are delinquent in November of each year.

F. Deposits and Investments

The District's cash and cash equivalents are considered to be demand deposits and short-term investments with original maturities at three months or less from the date of acquisition.

Investments are stated at fair value except for money market investments which are reported at cost. Any differences between the market value and cost of investments, other than short-term money market investments are reflected in investment income.

G. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received.

The component unit's unconditional promises to give represent short and long-term pledges adjusted for uncollectible promises and present value discounts.

H. Encumbrances

The District does not use encumbrance accounting.

I. Capital Assets

Capital Assets, which include land and machinery and equipment (furniture, vehicles, computers, etc.), are reported in the Governmental Activities column of the Government-Wide Financial Statements. A revised capitalization policy was adopted by the District as of the beginning of 2010. Assets with an initial, individual cost of more than \$5,000 and a useful life of two or more years are capitalized. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated or annexed capital assets are recorded at estimated market value at the date of donation or annexation

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation on capital assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 Years
Buildings Additions and Improvements	7-20 Years
Equipment & Furniture	3-15 Years

EAST MORGAN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Long-Term Debt and Costs

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of the various debt issues. Losses occurring from advance refunding of debts are deferred and amortized as interest expense over the remaining life of the old bonds, or the life of the new bonds, whichever is shorter.

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditures) until then. The District has one item that qualifies for reporting in this category: property taxes levied in 2016 and due in 2017.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category: property taxes levied in 2016 and due in 2017.

L. Net Position

Net position is comprised of the various net earnings from operating income, non operating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net position-This component of net position consists of the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of restricted or “net investment in capital assets.”

M. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

NOTE 2. CASH AND INVESTMENTS

A. Cash and Certificates of Deposit

The District's bank accounts and certificates of deposit at year-end were entirely covered by federal depository insurance or by collateral held by the District's custodial banks under provisions of the Colorado Public Deposit Protection Act.

EAST MORGAN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 2. CASH AND INVESTMENTS (CONTINUED)

The Colorado Public Deposit Protection Act requires financial institutions to pledge collateral having a market value of at least 102% of the aggregate public deposits not insured by federal depository insurance. Eligible collateral includes municipal bonds, U.S. government securities, mortgages and deeds of trust.

State statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of the state of Colorado or any county, school district, and certain towns and cities therein, notes or bonds secured by insured mortgages or trust deeds, obligations of national mortgage associations, and certain repurchase agreements.

B. Investments

Credit Risk: State law limits investments for local governments to U.S. Treasury issues, other federally backed notes and credits, and other agency offerings. Other investment instruments, including bank obligations, general obligation bonds, and commercial paper are limited to the top two ratings issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit its investment choices. As of December 31, 2016, the District's investments were rated either Aaa or AAA as noted in the supplemental Combined Schedule of Cash and Investments.

The primary government's investments consist of obligations of United States agencies, certificates of deposit and a money market account.

Custodial Credit Risk: The District's and the component unit's bank accounts and certificates of deposit at year end were entirely covered by federal depository insurance or collateral held by the District's custodial banks under the provisions of the Colorado Public Deposit Protection Act ("CPDPA").

The CPDPA requires financial institutions to pledge collateral having a market value of at least 102% of the aggregate public deposits not insured by federal depository insurance. Eligible collateral includes municipal bonds, U.S. government securities, mortgages, and deeds of trust.

Maturities: The U.S. Agency bonds carried by the District on December 31, 2016 were as follows:

Maturities within one year	\$	350,492
Maturities within two years		278,955
Maturities within three years		296,298
Maturities within four years		200,072
Maturities within five years		0

The District and the component unit do not have policies regarding interest rate risk and credit risk for investments. State law limits investment maturities to five years or less.

EAST MORGAN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 3. CHANGES IN GENERAL FIXED ASSETS

	Balance December 31, 2015	Additions	Deletions and Adjustments	Balance December 31, 2016
<u>Governmental Activities</u>				
Non-depreciable assets:				
Land	\$ 1,099,373	\$ -	\$ -	\$ 1,099,373
Total Non-depreciable Assets	1,099,373	-	-	1,099,373
Depreciable Assets:				
Buildings and improvements	11,950,539	178,101	-	12,128,640
Fixed equipment	15,759,691	51,693	-	15,811,384
Major moveable equipment	8,848,822	660,113	(58,786)	9,450,149
Construction in Progress	371,200	44,107	(385,320)	29,987
Total Depreciable Assets	36,930,252	934,014	(444,106)	37,420,160
Less: Accumulated depreciation	(12,272,146)	(2,205,173)	58,786	(14,418,533)
Net Depreciable Assets	24,658,106	(1,271,159)	(385,320)	23,001,627
Total Governmental Activities	<u>\$ 25,757,479</u>	<u>\$ (1,271,159)</u>	<u>\$(385,320)</u>	<u>\$ 24,101,000</u>

The amount of depreciation expense for public health in 2016 is \$2,205,173).

NOTE 4. CONTRIBUTIONS – BEQUESTS/COMPONENT UNIT

The District receives contributions from the East Morgan County Hospital Foundation. In-kind contributions represent goods or services purchased by the East Morgan County Hospital Foundation on behalf of the District. During 2016, the Foundation contributed \$1,000 in cash to the District. As of December 31, 2016, there were no contributions paid by the Foundation but not yet received by the District.

NOTE 5. NET POSITION APPROPRIATIONS AND RESERVES

A. Capital Improvements

The District has reserved \$496,095 for capital purchases. This amount is a carryover of contributions from 2016. These contributions are expected to be spent on 2017 capital purchases.

B. Tax, Spending, Revenue and Debt Limitations

On November 3, 1992, the voters of Colorado approved Amendment 1, commonly known as the TABOR Amendment, which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado, all local governments, and special districts.

The District's financial activity for the year ended December 31, 2002 will provide the basis for calculation of future limitations adjusted for allowable increases tied to inflation and local growth. Subsequent to December 31, 2002, revenue in excess of the District's "spending limit" must be refunded unless voters approve the retainage of such excess revenue. TABOR generally requires voter approval for any new tax, tax increases and debt

EAST MORGAN COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

NOTE 5. NET POSITION APPROPRIATIONS AND RESERVES (CONTINUED)

B. Tax, Spending, Revenue, and Debt Limitations (Continued)

In May, 1998 the District's electorate approved a resolution to permit the District to collect and receive, retain, and expend all revenue and other funds from any source, notwithstanding the limitations of Article X, Section 20 of the Colorado Constitution, provided however, that there is no increasing of tax rates or new taxes imposed.

TABOR is extremely complex and subject to interpretation. Ultimate implementation may depend upon litigation and legislative guidance.

The District has made the following fund balance reservation as a result of Article X, Section 20 (TABOR) to the Colorado Constitution:

Emergency Reserve

The Article requires an emergency reserve to be set aside for 2016 in the amount of 3% or more of its fiscal year spending. At December 31, 2016, the District has reserved \$26,000 for 2017 emergencies.

The District's management believes the District is in full compliance with the provisions of TABOR.

C. Temporarily Restricted

The Foundation (Component Unit) has recorded unconditional promises to give as contribution revenue. The temporarily restricted balance represents contributions estimated to be available in periods greater than one year. This balance was \$273,412 at December 31, 2016.

D. Permanently Restricted

During 1992, the Foundation (Component Unit) received a \$35,000 contribution whereby the donor stipulated that the principle remain intact, with only the income used for operations of the Foundation.

NOTE 6. 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 firemen, and natural disasters. The District purchases commercial insurance and Colorado Compensation Insurance for all risks of loss. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 7. OTHER MATTERS

The District relies upon Banner Health, a non-profit health care system, for purchases of assets and coordination of major asset purchases. Banner Health uses the facilities and equipment provided by the District to provide health care services to the community. Banner Health is able to obtain better contracts and prices due to its volume buying as a large health care organization.

NOTE 8. CONTINGENT DONATIONS

During 2008, the District received an asset from a regular vendor but no cash was disbursed. As the District purchases amounts of other products from the vendor, it receives credits toward the "purchase" of this asset, and it is anticipated that the full value of the asset will be credited to the District in the near term, so the District included neither the purchase nor the asset on the District's books. When the full value is received as a credit, the District will book the asset and related donation income on the financials.

EAST MORGAN COUNTY HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE 9. UNEARNED CONTRIBUTION REVENUE

In 2013, the District finalized a renewed lease contract with Banner Health for 15 years. As a part of the lease agreement, Banner gave the District a \$9.5 million contribution to use in connection with the campus expansion project of East Morgan County Hospital. The lease agreement states that if the District or Banner break the lease prior to the end of the 15 years, the District will have to repay a prorated portion of the contribution. As such, the entire amount was recorded as unearned revenue and is being amortized over the life of the 15-year contract. For 2016, contribution revenue of \$633,333 was recognized, and as of December 31, 2016, deferred revenues of \$6,808,334 are shown on the statement of net position.

NOTE 10. GENERAL OBLIGATION BOND ISSUANCE

The noncurrent liabilities reported in the government-wide statement of net position includes \$6,745,000 of general obligation demand bonds issued in August of 2014 maturing serially through December 1, 2038, backed by the full faith, credit, and taxing power of the District, net of related bond issuance premiums or discounts. The bonds were issued pursuant to a resolution adopted by the Board on January 14, 2016 for the purpose of financing the construction of an expansion to the East Morgan County Hospital, funding a debt service reserve fund, and paying the costs of issuance of the Certificates. The Certificates are payable solely from (a) annually appropriated Base Rentals and any Purchase Option Price paid by the District under the Lease Purchase Agreement; (b) moneys held in the Reserve Fund created under the agreement; and (c) following an Event of Non-appropriation or Event of Default under the Lease Purchase Agreement, any moneys received from the lease of the property or the exercise of other remedies under the Lease Purchase Agreement.

All financial obligations of the District under the Lease Purchase Agreement, including the District's obligation to pay Base Rentals, are subject to annual appropriation by the Board of the District. No provision of the Certificates, the Indenture, the Lease Purchase Agreement or the Site Lease should be construed or interpreted to directly or indirectly obligate the District to make any payment in any Fiscal Year in excess of amounts appropriated for such Fiscal Year; or as creating a debt or multiple Fiscal Year direct or indirect debt or other financial obligation whatsoever of the District within the meaning of Article XI, Section 6 or Article X, Section 20 of the Colorado Constitution or any other constitutional or statutory limitation or provision. These bonds are considered obligations of the general government and will be repaid with general government revenue sources.

The Certificates are subject to redemption prior to maturity at the option of the District, in whole, on December 1, 2019 and on any date thereafter, at a redemption price equal to the principal amount thereof (with no redemption premium), plus accrued interest to the redemption date.

In association with the issuance, debt issuance costs of \$191,963 were incurred and have been amortized over the life of the bonds (25 years) using the straight-line method. The amount of amortization costs for public health in 2016 is \$7,679. As of December 31, 2016, unamortized debt issuance costs of \$173,406 are shown on the statement of net position.

The debt service requirements to maturity for general obligation bonds are as follows:

Date	Principal	Interest	Total Principal & Interest
12/31/17	160,000	353,918	513,918
12/31/18	165,000	346,478	511,478
12/31/19	175,000	338,806	513,806
12/31/20	180,000	330,668	510,668
12/31/21	190,000	322,298	512,298
2022-2026	1,110,000	1,469,669	2,579,669
2027-2031	1,550,000	1,155,356	2,705,356
2032-2036	2,060,000	672,100	2,732,100
2037-2038	1,005,000	89,300	1,094,300

EAST MORGAN COUNTY HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE 11. LONG TERM LIABILITIES

Changes in long term liabilities are as follows:

	Balance 12/31/15	Addition	Reduction	Balance 12/31/16
Unearned Contribution Revenue	7,441,667	-	(633,333)	6,808,334
General Obligation Bonds	6,745,000	-	(150,000)	6,595,000
Unamortized Debt Issuance Costs	(181,085)	-	7,679	(173,406)
Total Long Term Liabilities	14,005,582	-	(775,654)	13,229,928

NOTE 12. SUBSEQUENT EVENTS

The District has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued. No events were noted that would require adjustment to or disclosure in the financial statements.

EAST MORGAN COUNTY HOSPITAL DISTRICT
 COMBINED SCHEDULE OF CASH AND INVESTMENTS
 As of December 31, 2016

	Investment Rating	Interest Rate	Maturity Date	Fair Value
CASH AND DEPOSITS				
Money Market and Checking				
Farmers State Bank	N/A	0.02%	N/A	\$ 874,213
RBC Capital Markets Money Market	N/A	0.01%	N/A	177,493
UMB Sinking Fund	N/A	N/A	N/A	549,418
Cash on Deposit with Morgan County Treasurer	N/A	N/A	N/A	6,646
				<u>1,607,770</u>
Certificates of Deposit				
Farmers State Bank	N/A	0.30%	3/15/2017	303,627
Farmers State Bank	N/A	0.30%	2/15/2017	203,836
Farmers State Bank	N/A	0.45%	2/15/2017	206,842
Farmers State Bank	N/A	0.35%	11/15/2017	206,194
Farmers State Bank	N/A	0.20%	8/15/2017	205,375
Farmers State Bank	N/A	0.30%	4/22/2017	300,227
Farmers State Bank	N/A	0.45%	7/22/2017	300,340
				<u>1,726,441</u>
Total Primary Government				3,334,211
East Morgan County Hospital Foundation - Component Unit				
Farmers State Bank	N/A	0.02%	N/A	68,265
Farmers State Bank	N/A	0.10%	N/A	21,876
RBC Capital Markets LLC	N/A	N/A	N/A	11,198
Farmers State Bank	N/A	0.45%	3/5/2017	104,438
Farmers State Bank	N/A	0.30%	7/11/2017	51,418
Farmers State Bank	N/A	0.45%	1/16/2017	35,000
Farmers State Bank	N/A	0.30%	2/1/2017	57,112
Farmers State Bank	N/A	0.30%	2/2/2017	50,076
Farmers State Bank	N/A	0.30%	6/16/2017	50,000
				<u>449,383</u>
Outstanding Checks and Deposits (Net)				-
Total Component Unit				<u>449,383</u>
Total Reporting Entity Cash and Deposits				<u>\$ 3,783,594</u>
INVESTMENTS				
Federal Home Loan Banks	AA+/AAA	4.88%	5/17/2017	\$ 10,157
Federal Home Loan Banks	AA+/AAA	1.00%	6/21/2017	255,382
Federal National Mortgage Association	AA+/AAA	0.88%	12/20/2017	84,953
Federal National Mortgage Association	AA+/AAA	0.88%	5/21/2018	174,510
Financing Corp Coupon Fico Strips	None	0.00%	12/6/2018	104,445
BMW Bank of North America	None	1.60%	1/22/2019	100,464
Federal Home Loan Mortgage Corporation	AA+/AAA	2.50%	4/26/2019	114,860
American Express Centr	None	2.05%	12/23/2019	80,974
HSBC Bank USA NA	None	1.25%	3/30/2020	200,072
Total Primary Government				<u>1,125,817</u>
East Morgan County Hospital Foundation - Component Unit				
Mutual Funds				
Capital World Bond Fund	None	Variable	N/A	23,838
Columbia Mid Cap Value Fund	None	Variable	N/A	35,520
Credit Suisse Commodity Return Strategy Fund	None	Variable	N/A	16,750
Dodge & Cox Income Fund	None	Variable	N/A	37,021
Dodge & Cox International Stock Fund	None	Variable	N/A	22,613
Eaton Vance Income Fund of Boston	None	Variable	N/A	33,391
Franklin High Income Fund	None	Variable	N/A	19,993
Hartford Dividend & Growth Fund	None	Variable	N/A	36,430
JPMorgan Short Duration Bond Fund Select	None	Variable	N/A	60,452
Loomis Sayles Investment Grade	None	Variable	N/A	28,710
Metropolitan West Funds Total Return Bond Fd	None	Variable	N/A	47,945
MFS Growth Fund	None	Variable	N/A	34,375
MFS International Value Fund	None	Variable	N/A	32,921
MFS Value Fund	None	Variable	N/A	36,364
T Rowe Price Dividend Growth Fund	None	Variable	N/A	36,300
T Rowe Price Diversified Small Cap Growth Fund	None	Variable	N/A	33,907
T Rowe Price New Income Fund	None	Variable	N/A	38,755
Templeton Global Bond Fund	None	Variable	N/A	34,386
Thornburg International Value Fund	None	Variable	N/A	17,779
Voya Global Real Estate Fund	None	Variable	N/A	18,138
Total Reporting Entity Investments				<u>645,588</u>
				<u>\$ 1,771,405</u>

The accompanying notes and independent auditors' report should
 be read with these financial statements.