

**Eastern Rio Blanco County
Health Service District
doing business as
Pioneers Medical Center**

Basic Financial Statements and
Independent Auditors' Report

December 31, 2016 and 2015



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Certified Public Accountants

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Meeker, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern Rio Blanco County Health Service District doing business as Pioneers Medical Center (the District) as of and for the years ended December 31, 2016 and 2015, 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.

Auditors' Responsibility

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 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 auditors' 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 auditors consider 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 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 inquiries 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of budget and actual revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information 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 schedule of budget and actual revenues and expenses is fairly stated, in all material respects, in relation to the financial statements as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
May 10, 2017

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Management's Discussion and Analysis
December 31, 2016 and 2015**

Our discussion and analysis of Eastern Rio Blanco County Health Service District doing business as Pioneers Medical Center's (the District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2016 and 2015. Please read it in conjunction with the District's financial statements, which begin on page 8.

Financial Highlights

- The District's cash and cash equivalents increased \$3,396,070, or 983.2%, in 2016.
- The District's net position increased \$1,128,993, or 3.9%, in 2016, and decreased \$747,145, or 2.5%, in 2015.
- The District's net patient revenues increased \$4,191,440, or 31.1%, in 2016 compared to 2015. The District's net patient revenues increased \$2,449,199, or 22.2%, in 2015 compared to 2014.
- The District reported operating expenses of \$21,365,979 in 2016 and \$16,994,065 in 2015, which is a 25.7% increase.
- Nonoperating revenues increased \$2,296,871, or 105.9%, in 2016 compared to 2015, and decreased \$3,735,865, or 63.3%, in 2015 compared to 2014.

Using This Annual Report

The District's financial statements consist of three statements — a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the District's finances begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in it. You can think of the District's net position — the difference between assets and liabilities — as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether the District's financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service the District provides to the community, as well as the local economic factors to assess the overall health of the District.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Management’s Discussion and Analysis (Continued)
December 31, 2016 and 2015

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as “Where did cash come from?”; “What was cash used for?”; and “What was the change in cash balance during the reporting period?”

The District’s Net Position

The District’s net position is the difference between its assets and liabilities reported in the Statement of Net Position on pages 8 and 9. The District’s net position increased by \$1,128,993, or 3.9%, compared to a decrease of \$747,145, or 2.5%, in 2015, as shown in Table 1.

Table 1: Assets, Liabilities, and Net Position

Significant components of the change in the District’s assets are the increase in cash and cash equivalents and cash related to the construction of the new hospital as shown in the District’s Statement of Net Position on page 8.

	2016	2015	2014
<i>Assets</i>			
Current assets	\$ 16,095,970	\$ 13,611,278	\$ 18,854,186
Capital assets, net	44,513,300	48,118,737	32,794,132
Other noncurrent assets	5,185,807	5,170,908	19,737,586
Total assets	\$ 65,795,077	\$ 66,900,923	\$ 71,385,904
<i>Liabilities</i>			
Current liabilities	\$ 3,704,406	\$ 2,782,492	\$ 2,783,418
Long-term debt, less current maturities	27,667,599	29,656,538	33,767,928
Total liabilities	31,372,005	32,439,030	36,551,346
<i>Deferred inflows of resources, tax revenue</i>	4,537,687	5,705,501	5,331,021
<i>Net position</i>			
Net investment in capital assets	15,019,751	16,597,299	11,925,466
Restricted by creditor	5,047,484	5,043,721	5,022,000
Unrestricted	9,818,150	7,115,372	12,556,071
Total net position	29,885,385	28,756,392	29,503,537
Total liabilities and net position	\$ 65,795,077	\$ 66,900,923	\$ 71,385,904

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Management's Discussion and Analysis (Continued)
December 31, 2016 and 2015

Operating Results and Changes in the District's Net Position

In 2016, the District's net position increased by \$1,128,993, or 3.9%, as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
<i>Operating revenues</i>			
Net patient service revenue	\$ 17,655,099	\$ 13,463,659	\$ 11,014,460
Electronic health records incentive payment (refund)	29,250	(180,965)	852,901
Grants	83,078	134,666	152,065
Other revenue	166,739	172,105	131,916
Total operating revenues	17,934,166	13,589,465	12,151,342
<i>Operating expenses</i>			
Salaries and benefits	10,166,105	9,153,596	8,546,565
Supplies	1,664,231	1,184,001	722,930
Depreciation	4,473,149	2,545,006	757,444
Other	5,062,494	4,111,462	3,382,349
Total operating expenses	21,365,979	16,994,065	13,409,288
<i>Operating loss</i>	(3,431,813)	(3,404,600)	(1,257,946)
<i>Nonoperating revenues (expenses)</i>			
Property taxes	5,912,686	5,454,310	5,921,320
Loss on disposal of assets	-	(2,010,884)	-
Demolition costs	(66,100)	(549,861)	(24,103)
Contributions	24,063	13,571	10,829
Tax collection expense	(287,793)	(264,135)	(287,902)
Investment income	46,831	187,548	284,528
Interest expense	(1,164,009)	(661,742)	-
Total nonoperating revenues (expenses), net	4,465,678	2,168,807	5,904,672
Excess of revenues (expenses) before capital grants and contr	1,033,865	(1,235,793)	4,646,726
<i>Capital grants and contributions</i>	95,128	488,648	-
Change in net position	1,128,993	(747,145)	4,646,726
Net position, beginning of year	28,756,392	29,503,537	24,856,811
Net position, end of year	\$ 29,885,385	\$ 28,756,392	\$ 29,503,537

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Management's Discussion and Analysis (Continued)
December 31, 2016 and 2015**

Operating Income (Losses)

The first component of the overall change in the District's net position is its operating income (loss) — generally, the difference between net patient revenues and the expenses incurred to perform those services. The District has reported operating losses since 2010. The District's hospital operations began in 1950 as a county-owned hospital, when it was agreed that a portion of its costs would be subsidized by property tax revenues. On January 1, 2007, the District was formed as a Health Service District under the laws of the state of Colorado (2006 voter election).

The primary components of these operating results are:

- An increase in net patient revenue of \$4,191,440, or 31.1%, in 2016, compared to an increase of \$2,449,199, or 22.2%, in 2015.
- An increase in salaries of \$572,991, or 8.4%, in 2016, compared to an increase of \$382,106, or 5.9%, in 2015.
- An increase in professional fees and other purchased services of \$671,062, or 31%, in 2016, compared to an increase of \$247,834, or 12.9%, in 2015.
- An increase in depreciation expense of \$1,928,143, or 75.8%, in 2016, compared to an increase in 2015 of \$1,787,562, or 236%, due to the new \$48,000,000 facility placed into service for a full year in 2016 versus half a year in 2015.

The District is certified as a provider under both the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy families. Approximately 43% of the net patient service revenue for the year ended December 31, 2016, was derived from Medicare, and 9% was derived from Medicaid. As of January 1, 2008, the District was designated a critical access hospital by the Centers for Medicare and Medicaid Services. The District initiated a process to qualify for this designation based on certain criteria that has allowed the District, since that date, to receive reimbursement based on actual costs. As for Medicaid, the federal government provides funding to states with programs meeting certain federal guidelines. This funding can be changed through legislative and regulatory processes.

The District provides care for patients with little or no health insurance or other means of repayment. As discussed, this community service is consistent with the goals established for the District. The level of services provided to these patients was \$95,836, a decrease of \$35,425, or 27%, in 2016.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, interest expense and investment earnings. Nonoperating revenues and expenses increased from 2015 to 2016 by \$2,296,871. Nonoperating tax revenues increased by \$458,376 in 2016, or 8.4%, compared to a decrease of \$467,010 in 2015, or 7.9%. The primary reasons for the increase from 2015 to 2016 was the loss on disposal of assets of \$2,010,884 in 2015 due to the disposal of the old facility and that demolition costs were \$66,100 in 2016 and \$549,861 in 2015.

Grants, Contributions, and Endowments

The District, from time to time, receives grants from the state of Colorado and various other agencies for specific programs. These are discussed in detail in Note 1(b) to the financial statements.

The District received no permanent endowments in 2016 or 2015.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Management's Discussion and Analysis (Continued)
December 31, 2016 and 2015**

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating income (losses) and nonoperating revenues and expenses. Nonoperating expenses decreased with the demolition costs of \$66,100 in 2016, compared to \$549,861 in 2015 and the loss on disposal of assets of \$-0- in 2016, compared to \$2,010,884 in 2015.

Capital Asset and Debt Administration

Capital Assets

The District had \$44,513,300 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements versus \$48,118,737 in 2015. In 2016, the District purchased a new MRI machine and other medical equipment. In 2015, the District purchased new equipment and improvements to facilities as well as additions in construction in progress related to the construction of a new hospital building and electronic health records costing \$15,324,605. Of this, there were no additional capital leases. The District has found it occasionally more economical to lease some equipment, allowing the District to avoid certain costs of obsolescence from technological changes.

Debt

At year end, the District had \$29,493,549 in 2016, compared to \$31,414,388 in 2015, in notes payable and capital lease obligations outstanding. The District issued new debt in 2013 for the construction of the new hospital. The District's formal debt issuances cannot be issued without approval of the Eastern Rio Blanco County Health Service District Board of Directors. The amount of debt issued is subject to limitations that apply to hospital districts within the state of Colorado. There have been no changes in the District's debt ratings in the past two years.

Other Economic Factors

Competition from other hospitals and healthcare providers is a risk to the District's revenue. New or existing organizations try to carve out profitable segments of the District's business by expanding their operations and/or facilities to meet the demand of growing healthcare in this area.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the finance department at Pioneers Medical Center, 100 Pioneers Medical Center Drive, Meeker, Colorado 81641.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Net Position
December 31, 2016 and 2015

ASSETS	2016	2015
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,741,494	\$ 345,424
Investments	2,964,840	4,211,599
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$722,000 and \$613,000, respectively	2,151,863	1,519,854
Property tax levy	4,537,687	5,705,501
Electronic health records incentive payment	800,000	617,000
Estimated third-party payor settlements	873,000	600,000
340b contract pharmacy	79,301	-
Other	32,288	35,487
Inventories	545,871	323,345
Prepaid expenses	369,626	253,068
Total current assets	16,095,970	13,611,278
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted for debt service reserve	5,047,484	5,043,721
Investment in Western Health Alliance	138,323	127,187
Capital assets, net	44,513,300	48,118,737
Total noncurrent assets	49,699,107	53,289,645
Total assets	\$ 65,795,077	\$ 66,900,923

See accompanying notes to basic financial statements.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Net Position (Continued)
December 31, 2016 and 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2016	2015
<i>Current liabilities</i>		
Accounts payable	\$ 834,399	\$ 326,124
Accounts payable - capital	-	107,050
Accrued compensation and related liabilities	1,044,057	571,800
Estimated third-party payor settlements	-	19,668
Current maturities of long-term debt	1,825,950	1,757,850
Total current liabilities	3,704,406	2,782,492
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	27,667,599	29,656,538
Total liabilities	31,372,005	32,439,030
<i>Deferred inflows of resources, tax revenue</i>	4,537,687	5,705,501
<i>Net position</i>		
Net investment in capital assets	15,019,751	16,597,299
Restricted by creditor	5,047,484	5,043,721
Unrestricted	9,818,150	7,115,372
Total net position	29,885,385	28,756,392
Total liabilities, deferred inflows of resources, and net position	\$ 65,795,077	\$ 66,900,923

See accompanying notes to basic financial statements.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$602,000 each year	\$ 17,655,099	\$ 13,463,659
Electronic health records incentive payment (refund)	29,250	(180,965)
Grants	83,078	134,666
Other revenue	166,739	172,105
Total operating revenues	17,934,166	13,589,465
<i>Operating expenses</i>		
Salaries and wages	7,421,290	6,848,299
Employee benefits	2,744,815	2,305,297
Professional fees and other purchased services	2,836,778	2,165,716
Supplies	1,664,231	1,184,001
Utilities	580,141	461,950
Depreciation	4,473,149	2,545,006
Insurance	151,060	158,934
Leases and rentals	9,137	10,498
Repairs and maintenance	746,714	583,771
Provider fees	295,815	201,991
Other	442,849	528,602
Total operating expenses	21,365,979	16,994,065
<i>Operating loss</i>	(3,431,813)	(3,404,600)
<i>Nonoperating revenues (expenses)</i>		
Property taxes	5,912,686	5,454,310
Loss on disposal of assets	-	(2,010,884)
Demolition costs	(66,100)	(549,861)
Contributions	24,063	13,571
Tax collection expense	(287,793)	(264,135)
Investment income	46,831	187,548
Interest expense	(1,164,009)	(661,742)
Total nonoperating revenues (expenses), net	4,465,678	2,168,807
Excess of revenues (expenses) before capital grants and contributions	1,033,865	(1,235,793)
<i>Capital grants and contributions</i>	95,128	488,648
Change in net position	1,128,993	(747,145)
Net position, beginning of year	28,756,392	29,503,537
Net position, end of year	\$ 29,885,385	\$ 28,756,392

See accompanying notes to basic financial statements.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 16,651,121	\$ 13,398,689
Grants	83,078	134,666
Electronic health records incentive payment (refund)	(153,750)	2,035
Other receipts	169,938	157,920
Payments to and on behalf of employees	(9,693,848)	(9,357,968)
Payments to suppliers and contractors	(6,557,534)	(5,390,972)
Net cash provided by (used in) operating activities	499,005	(1,055,630)
<i>Cash flows from noncapital financing activities</i>		
Property taxes	5,912,686	5,462,642
Payments for tax collection	(287,793)	(264,135)
Contributions received	24,063	13,571
Net cash provided by noncapital financing activities	5,648,956	5,212,078
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(1,920,839)	(1,849,327)
Purchase of capital assets	(1,040,862)	(22,049,834)
Interest paid on long-term debt	(1,164,009)	(1,131,950)
Capital grants and contributions	95,128	488,648
Net cash used in capital and related financing activities	(4,030,582)	(24,542,463)
<i>Cash flows from investing activities</i>		
Purchase of investments	(1,551,269)	(93,222)
Proceeds from sale of investments	2,769,924	3,936,239
Investment income	63,799	143,040
Net cash provided by investing activities	1,282,454	3,986,057
Net increase (decrease) in cash and cash equivalents	3,399,833	(16,399,958)
Cash and cash equivalents, beginning of year	5,389,145	21,789,103
Cash and cash equivalents, end of year	\$ 8,788,978	\$ 5,389,145

See accompanying notes to basic financial statements.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

	2016	2015
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents in current assets	\$ 3,741,494	\$ 345,424
Cash and cash equivalents in noncurrent assets	5,047,484	5,043,721
Total cash and cash equivalents	\$ 8,788,978	\$ 5,389,145
<i>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</i>		
Operating loss	\$ (3,431,813)	\$ (3,404,600)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation	4,473,149	2,545,006
Provision for bad debts	601,903	602,321
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(1,233,912)	(349,959)
Electronic health records incentive payment	(183,000)	183,000
Estimated third-party payor settlements	(273,000)	(337,000)
340b contract pharmacy	(79,301)	-
Other	3,199	(14,185)
Inventories	(222,526)	(29,318)
Prepaid expenses	(116,558)	(77,592)
Increase (decrease) in liabilities:		
Accounts payable	508,275	11,401
Accrued compensation and related liabilities	472,257	(204,372)
Estimated third-party payor settlements	(19,668)	19,668
Net cash provided by (used in) operating activities	\$ 499,005	\$ (1,055,630)

See accompanying notes to basic financial statements.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements
Years Ended December 31, 2016 and 2015**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Eastern Rio Blanco County Health Service District doing business as Pioneers Medical Center (the District) is an independent governmental entity organized under provisions of the Colorado Revised Statutes. It operates within eastern Rio Blanco County (the County) but is not part of the County government. As organized, the District is exempt from paying federal income tax. The Board of Directors consists of seven elected residents of the District.

The District operates a licensed 10-bed hospital, 30-bed skilled nursing facility, rural health clinic, and a home health agency in Meeker, Colorado. The services provided include medical-surgical, pediatrics, surgery, emergency room, clinic, long-term care, and the related ancillary services (laboratory, imaging, cardiology, physical therapy, respiratory therapy, etc.).

b. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Enterprise fund accounting – The District’s accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

Inventories – Inventories are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

Capital assets – The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least three years. Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses as incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method.

Useful lives are estimated as follows:

	<u>Years</u>
Land improvements	10-15
Buildings and improvements	5-40
Equipment	3-20

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Accrued compensated absences – Employees earn paid time off on regular hours actually worked at varying rates depending on years of service. The percentage of paid time off accrued ranges from 10% to 16% of the regular hours worked. Employees may accrue a maximum of 400 hours of paid time off. Amounts in excess of 200 hours may be redeemed for up to 40 hours. All paid time off is accrued and expensed when earned.

Net position – The net position of the District is classified into three components. *Net investment in capital assets* consists of the District’s capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is composed of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net position* is composed of remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

Grants and contributions – From time to time, the District receives federal, state, and county grants, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Grants that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Grants that are used to subsidize operating deficits are reported as nonoperating revenues. Contributions, except for capital contributions, are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Change in accounting policies – Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurements and Application*, is effective for years beginning after June 15, 2015 (fiscal year ended December 31, 2016, for the District). The statement establishes new requirements on how fair value should be measured, which assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The adoption of this statement has no impact on change in net position.

Subsequent events – Subsequent events have been reviewed through May 10, 2017, the date on which the financial statements were available to be issued.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

2. Bank Deposits and Investments:

Deposits:

Under Colorado State statute, the Commercial Bank Code Public Deposit Protection Act of 1989 (PDPA) protects public funds held in bank deposit accounts in the event that the bank holding the public deposits becomes insolvent. As defined by the PDPA, deposit accounts include checking, savings, bank money market, and certificate of deposit accounts. Banks must deliver bank assets (usually securities) to a third-party institution, which are pledged to the Colorado Division of Banking, for all Colorado public depositors.

The District's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation or by deposits collateralized by securities not held in the District's name under the PDPA.

Custodial credit risk is the risk that, in the event of a depository institution failure, the District's deposits may not be returned.

Investments:

Colorado State statutes authorize the District to invest in obligations of the United States Treasury, agencies and instrumentalities, commercial paper, repurchase agreements, money market funds, and local government investment pools with a maturity date of no more than five years from the date of purchase.

Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. The District's investment policy does not contain policy requirements that would limit the exposure to custodial credit risk for investments.

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District has a policy specifically requiring or limiting investments of this type.

Concentration of credit risk – Concentration of credit risk is the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District has a policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates could adversely affect an investment's fair value. The District has a policy specifically managing its exposure to fair value losses arising from changing interest rates.

The District's investments were in compliance with the State of Colorado's (State) investment requirements for the years ended December 31, 2016 and 2015.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

2. Bank Deposits and Investments (continued):

Investments (continued):

The District's investments consisted of:

2016							S&P Ratings
	Fair Value	No Maturity	Investment Maturities in Years				
			Less than 1	1 to 5	Over 5		
Money market funds	\$ 715,522	\$ 715,522	-	-	-	-	Not applicable
Freddie Mac bonds	998,448	-	998,448	-	-	-	AA+
Fannie Mae bonds	975,870	-	-	975,870	-	-	AA+
Real assets - mineral rights	275,000	275,000	-	-	-	-	Not applicable
	\$ 2,964,840	\$ 990,522	\$ 998,448	\$ 975,870	\$ -	\$ -	

2015							Investment Ratings
	Fair Value	No Maturity	Investment Maturities in Years				
			Less than 1	1 to 5	Over 5		
Money market funds	\$ 3,936,599	\$ 3,936,599	-	-	-	-	Not applicable
Real assets - mineral rights	275,000	275,000	-	-	-	-	Not applicable
	\$ 4,211,599	\$ 4,211,599	\$ -	\$ -	\$ -	\$ -	

Fair value measurements – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has the following recurring fair value measurements as of December 31, 2016:

- Money market funds are valued using quoted market prices (Level 1).
- Bonds are valued using quoted market prices (Level 1).
- Real assets, investments in mineral rights, are valued using discounted estimated future cash flows (Level 3).

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior years. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets, consisted of these amounts:

	2016	2015
Receivable from patients and their insurance carriers	\$ 1,860,803	\$ 1,444,931
Receivable from Medicare	990,533	622,237
Receivable from Medicaid	22,431	65,323
Total patient accounts receivable	2,873,767	2,132,491
Less allowance for uncollectible accounts	721,904	612,637
Patient accounts receivable, net	\$ 2,151,863	\$ 1,519,854

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

4. Capital Assets:

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 315,400	\$ -	\$ -	\$ -	\$ 315,400
Construction in progress	25,000	155,282	-	(25,000)	155,282
Total capital assets not being depreciated	340,400	155,282	-	(25,000)	470,682
<i>Capital assets being depreciated</i>					
Land improvements	8,827,492	-	(2,738)	-	8,824,754
Building and improvements	21,535,614	266,789	-	25,000	21,827,403
Equipment	22,871,356	445,641	-	-	23,316,997
Total capital assets being depreciated	53,234,462	712,430	(2,738)	25,000	53,969,154
<i>Less accumulated depreciation for</i>					
Land improvements	(395,132)	(739,646)	-	-	(1,134,778)
Building and improvements	(857,400)	(1,736,374)	2,738	-	(2,591,036)
Equipment	(4,203,593)	(1,997,129)	-	-	(6,200,722)
Total accumulated depreciation	(5,456,125)	(4,473,149)	2,738	-	(9,926,536)
Total capital assets being depreciated, net	47,778,337	(3,760,719)	-	25,000	44,042,618
Capital assets, net of accumulated depreciation	\$ 48,118,737	\$ (3,605,437)	\$ -	\$ -	\$ 44,513,300

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

4. Capital Assets (continued):

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 287,300	\$ 28,100	\$ -	\$ -	\$ 315,400
Construction in progress	28,706,266	42,905	-	(28,724,171)	25,000
Total capital assets not being depreciated	28,993,566	71,005	-	(28,724,171)	340,400
<i>Capital assets being depreciated</i>					
Land improvements	62,470	8,811,302	(46,280)	-	8,827,492
Building and improvements	6,315,070	-	(6,056,501)	21,277,045	21,535,614
Equipment	5,165,106	10,998,188	(739,064)	7,447,126	22,871,356
Total capital assets being depreciated	11,542,646	19,809,490	(6,841,845)	28,724,171	53,234,462
<i>Less accumulated depreciation for</i>					
Land improvements	(44,607)	(388,311)	37,786	-	(395,132)
Building and improvements	(4,053,298)	(882,221)	4,078,119	-	(857,400)
Equipment	(3,644,175)	(1,274,474)	715,056	-	(4,203,593)
Total accumulated depreciation	(7,742,080)	(2,545,006)	4,830,961	-	(5,456,125)
Total capital assets being depreciated, net	3,800,566	17,264,484	(2,010,884)	28,724,171	47,778,337
Capital assets, net of accumulated depreciation	\$ 32,794,132	\$ 17,335,489	\$ (2,010,884)	\$ -	\$ 48,118,737

Construction in progress as of December 31, 2016, consists of costs associated with new radiology equipment. The equipment will be placed into service in April 2017, and there are no further costs expected.

Total interest costs incurred during the years ended December 31, 2016 and 2015, were \$1,164,009 and \$1,235,611, respectively, of which, \$-0- and \$573,869 respectively, were capitalized.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

5. Long-term Debt:

A schedule of changes in the District's long-term debt is as follows:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
<i>Long-term debt</i>	\$ 31,414,388	\$ -	\$ (1,920,839)	\$ 29,493,549	\$ 1,825,950

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amounts Due Within One Year
<i>Long-term debt</i>	\$ 33,263,715	\$ -	\$ (1,849,327)	\$ 31,414,388	\$ 1,757,850

The District has a lease purchase agreement in the original amount of \$35,000,000 with Zion's First National Bank. The lease purchase agreement is payable in monthly installments of \$256,780 including interest of 3.8% through November 2028. Western Alliance Bank and Bank of the San Juans have certificates of participation with Zion's National Bank of \$30,000,000 and \$5,000,000, respectively. Zion's First National Bank serves as the trustee.

Scheduled principal and interest repayments on the long-term debt are as follows:

Years Ending December 31,	Principal	Interest	Total
2017	\$ 1,825,950	\$ 998,757	\$ 2,824,707
2018	2,065,580	1,015,780	3,081,360
2019	2,145,454	935,906	3,081,360
2020	2,228,416	852,944	3,081,360
2021	2,314,587	766,773	3,081,360
2022-2026	12,986,728	2,420,073	15,406,801
2027-2028	5,926,834	237,796	6,164,630
	\$ 29,493,549	\$ 7,228,029	\$ 36,721,578

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

6. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provision for bad debts and writeoffs has not changed significantly from the prior year. The District has not changed its charity care or uninsured discount policies during fiscal years 2016 or 2015. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2016	2015
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 7,587,931	\$ 5,504,598
Medicaid	1,645,134	1,451,752
Other third-party payors	6,797,264	4,921,657
Patients	1,202,682	842,839
340b contract pharmacy	279,395	-
Supplemental payments	840,432	1,476,395
	18,352,838	14,197,241
Less:		
Charity care	95,836	131,261
Provision for bad debts	601,903	602,321
Net patient service revenue	\$ 17,655,099	\$ 13,463,659

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – The District has been designated a critical access hospital and the clinic a rural health clinic by Medicare. The District is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after the submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.
- *Medicaid* – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Most outpatient services are paid on a cost basis through October 31, 2016, and subsequently on a prospective payment system. Rural health clinic visits are reimbursed on prospectively set rates per encounter. Physician services outside the rural health clinic are reimbursed on a fee schedule. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

6. Net Patient Service Revenue (continued):

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$60,000 and \$55,000 in the years ended December 31, 2016 and 2015, respectively, due to differences between original estimates and final settlements.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2016 and 2015, were approximately \$96,000 and \$148,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2016 and 2015.

7. Electronic Health Records Incentive Payment:

The District recognized Medicare and Medicaid electronic health records (EHR) incentive payments during the year ended December 31, 2016. The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The District recognizes the Medicare incentive payment on the date that the District has successfully complied with meaningful use criteria during the entire EHR reporting period. The District first attested to meaningful use with the Centers for Medicare and Medicaid Services (CMS) on September 30, 2012. The Medicare EHR reporting period is through December 31 of each year.

The Medicare incentive payment recognized is an estimate and subject to audit by CMS. The Medicare EHR incentive payment is based on the days reported in the prior year Medicare cost report and the undepreciated cost of the EHR equipment submitted to CMS. The final payment will be based on days reported in the current Medicare cost report. No Medicare incentive payments were recognized as revenue in 2016 and 2015.

The District recognizes the first of its three Medicaid incentive payments in the year that certified EHR technology is adopted, implemented, or upgraded or when such technology is meaningfully used under the Medicare EHR incentive program. The subsequent payments are issued when meaningful use is demonstrated under Medicare. Medicaid incentive payments of \$29,250 and \$-0- were recognized as revenue in 2016 and 2015, respectively. Substantially all of the Medicaid EHR incentive payments that were received in prior years were paid back in 2015.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

8. Property Taxes:

The Rio Blanco County Treasurer acts as an agent to assess and collect property taxes levied in the County for all taxing authorities. Property taxes are levied and assessed in December on property values assessed as of January 1 of the prior year.

Taxes are due in two equal amounts by February 28 and June 15, or all may be paid by April 30. The assessed property is subject to lien on the levy date. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the District. No allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates. A deferred inflow of resources and a receivable were recorded at December 31, 2016 and 2015, for taxes levied for 2017 and 2016, respectively.

For 2016, the District's regular tax levy was \$7.280 per \$1,000 on a total assessed valuation of \$783,722,610, for a total regular levy of \$5,705,501. For 2015, the District's regular tax levy was \$7.280 per \$1,000 on a total assessed valuation of \$732,283,050, for a total regular levy of \$5,334,952.

The District paid \$287,793 and \$264,135 in 2016 and 2015, respectively, to the Rio Blanco County Treasurer for assessment and collection of the tax levy.

9. Defined Contribution Plans:

The District sponsors a 401(a) defined contribution plan. The Eastern Rio Blanco County Health Service District 401(a) Plan (the 401(a) Plan) is mandatory for all eligible employees. Additionally, a 457 deferred compensation plan (the 457 Plan) is voluntary for all eligible participants who may defer a percentage of their compensation up to certain limits specified by the Internal Revenue Code. Participants are fully vested in their salary deferrals to the 457 Plan.

Under the 401(a) Plan, employees are required to contribute 6% of their gross income which the District matches 100%. The participants are eligible for the employer matching contributions immediately if they work a minimum of 24 hours per week and are either part-time or full-time status. The matching contributions are allocated to the participants' accounts in the Colorado County Officials & Employees Retirement Association (CCOERA). Participants are vested depending on the years of service, ranging from 0% for the first year to fully vested in the sixth year.

CCOERA administers both the 457 Plan and the 401(a) Plan.

Participant contributions to the 457 Plan during the years ended December 31, 2016 and 2015, were approximately \$121,000 and \$135,000, respectively. Participant contributions to the 401(a) retirement plan during the years ended December 31, 2016 and 2015, were approximately \$418,000 and \$393,000, respectively. The District made matching contributions to the 401(a) Plan of approximately \$383,000 and \$323,000 during the years ended December 31, 2016 and 2015, respectively. Forfeitures of approximately \$37,000 and \$78,000, during the years ended December 31, 2016 and 2015, respectively, were used to reduce the District's contributions.

Benefit terms including contribution requirements are established and may be amended by the District. When a participant leaves employment prior to being fully vested, forfeitures are utilized against future employer contributions.

The District made all required funding payments during the year.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015**

10. Commitment:

The District renewed a management contract with Quorum Health Resources, LLC (QHR) on October 21, 2011, for the management, administration, and operations of the District. The agreement calls for the District to pay QHR an annual base fee, with provision for annual increases based on the changes in the Consumer Price Index and pass-through salaries and benefit costs for management. The term of the agreement extends through December 31, 2017. Total payments to QHR during 2016 and 2015 were approximately \$299,000 and \$285,000, respectively. The District's future commitment to QHR for management fees is approximately \$313,000.

11. Risk Management and Contingencies:

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Medical malpractice claims – The District has professional liability insurance with COPIC Insurance Company (COPIC). The policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policies, as well as past incidents that are reported during the current term. The malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has a \$25,000 deductible per claim.

The District also purchases excess malpractice liability insurance through COPIC. COPIC provides protection on an “excess” basis whereby claims reported to the insurance carrier are only covered in excess of primary malpractice liability coverage. The COPIC excess liability limit is \$5,000,000 per claim with an annual aggregate limit of \$5,000,000.

No liability has been accrued for future coverage of acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

Taxpayer's Bill of Rights – Colorado voters passed an amendment to the state constitution, Article X, Section 20, known as the *Taxpayer's Bill of Rights*. This amendment has several limitations including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of this amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2016 and 2015

12. Concentration Risks:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	2016	2015
Medicare	36 %	32 %
Medicaid	3	5
Other third-party payors	40	41
Patients	21	22
	100 %	100 %

Physicians – The District is dependent on local physicians and mid-level providers practicing in its service area to provide admission and utilize hospital services on an outpatient basis. A decrease in the number of providers or changes in their utilization patterns may have an adverse effect on hospital operations.

13. Budget and Actual Revenues and Expenses:

The District overspent its approved budget by \$2,958,994 in 2016.

14. Subsequent Event:

The Board of Directors approved a contract to implement a new electronic health records and accounting system in fiscal year 2017. Payment for the system is a percentage of the District's collections for as long as the District is utilizing the computer system.

SUPPLEMENTAL INFORMATION

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Schedule of Budget and Actual Revenues and Expenses
Year Ended December 31, 2016

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<i>Operating revenues</i>			
Net patient service revenue	\$ 16,446,526	\$ 17,655,099	\$ 1,208,573
Electronic health records incentive payment	-	29,250	29,250
Grants	-	83,078	83,078
Other revenue	411,960	166,739	(245,221)
Total operating revenues	16,858,486	17,934,166	1,075,680
<i>Operating expenses</i>			
Salaries and wages	7,863,470	7,421,290	442,180
Employee benefits	2,868,615	2,744,815	123,800
Professional fees and other purchased services	1,535,598	2,836,778	(1,301,180)
Supplies	1,300,683	1,664,231	(363,548)
Utilities	597,155	580,141	17,014
Depreciation	3,107,395	4,473,149	(1,365,754)
Insurance	189,660	151,060	38,600
Leases, rentals, repairs and maintenance	511,678	755,851	(244,173)
Other	432,731	738,664	(305,933)
Total operating expenses	18,406,985	21,365,979	(2,958,994)
Operating loss	(1,548,499)	(3,431,813)	(1,883,314)
<i>Nonoperating revenues (expenses)</i>			
Property taxes	5,927,501	5,912,686	(14,815)
Demolition costs	-	(66,100)	(66,100)
Contributions	420,000	24,063	(395,937)
Tax collection expense	(296,375)	(287,793)	8,582
Investment income	81,000	46,831	(34,169)
Interest expense	(1,310,748)	(1,164,009)	146,739
Capital grants and contributions	-	95,128	95,128
Total nonoperating revenues (expenses), net	4,821,378	4,560,806	(260,572)
Change in net position	\$ 3,272,879	\$ 1,128,993	\$ (2,143,886)

See accompanying independent auditors' report.