



Management's Discussion and Analysis
and Financial Statements
December 31, 2016 and 2015

Kit Carson County Health Service District



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Kit Carson County Health Service District
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December 31, 2016 and 2015

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Independent Auditor's Report

The Board of Directors
Kit Carson County Health Service District
Burlington, Colorado

Report on the Financial Statements

We have audited the accompanying statements of net position of Kit Carson County Health Service District (District), as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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 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 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 District'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 District'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 Kit Carson County Health Service 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 through 6 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 audit 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
June 15, 2017

This discussion and analysis of the financial performance of Kit Carson County Health Service District (District) provides an overall review of the District's financial activities and balances as of and for the years ended December 31, 2016, 2015 and 2014. The intent of this discussion and analysis is to provide further information on the District's performance as a whole. Readers should also review the basic financial statements and the notes thereto to enhance their understanding of the District's financial status.

Financial Highlights

- The District's net position decreased \$546,795 or 6% in 2016 and increased \$680,135 or 9% in 2015.
- The District reported an operating loss in 2016 of \$384,391 and operating income in 2015 of \$875,634. Operating loss increased \$1,260,025 or 144% in 2016 from 2015. Operating income increased \$1,089,398 or 510% in 2015 from 2014.
- The District's total assets decreased \$703,976 or 3% in 2016 compared to 2015. Total assets increased \$560,718 or 3% in 2015 compared to 2014.

Using This Annual Report

The District's financial 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

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 liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. 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 its 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 it provides to the community, as well as local economic factors to assess the overall health of the District.

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. The District's net position decreased by \$546,795 or 6% in 2016 and increased \$680,135 or 9% in 2015, as shown in Table 1.

Table 1: Assets, Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Current assets	\$ 11,094,807	\$ 11,149,988	\$ 9,376,571
Capital assets, net	8,725,815	9,388,382	10,613,074
Other noncurrent assets	<u>2,095,331</u>	<u>2,081,559</u>	<u>2,069,566</u>
Total assets	<u>\$ 21,915,953</u>	<u>\$ 22,619,929</u>	<u>\$ 22,059,211</u>
Liabilities			
Current liabilities	\$ 2,033,522	\$ 2,091,410	\$ 1,789,042
Long-term debt, less current maturities	<u>11,315,160</u>	<u>11,431,647</u>	<u>11,851,575</u>
Total liabilities	<u>13,348,682</u>	<u>13,523,057</u>	<u>13,640,617</u>
Deferred Inflows of Resources	<u>480,962</u>	<u>463,768</u>	<u>465,625</u>
Net Position			
Net investment in capital assets	(1,708,157)	(1,058,090)	(227,879)
Restricted - expendable for debt service	491,464	387,874	376,936
Unrestricted	<u>9,303,002</u>	<u>9,303,320</u>	<u>7,803,912</u>
Total net position	<u>8,086,309</u>	<u>8,633,104</u>	<u>7,952,969</u>
Total liabilities deferred inflows of resources and net position	<u>\$ 21,915,953</u>	<u>\$ 22,619,929</u>	<u>\$ 22,059,211</u>

The District's assets decreased by \$703,796 or 3% in 2016 and increased by \$560,718 or 3% in 2015. The District's liabilities decreased by \$174,375 or 1% in 2016 and decreased \$117,560 or 1% in 2015.

- Decrease in cash and cash equivalents is the primary cause of the decrease in total assets in 2016. Increase in cash and cash equivalents is the primary cause of the increase in total assets in 2015.
- Decrease in accrued salaries and wages in the primary cause of the decrease in total liabilities in 2016. During 2015 the District did not incur any additional debt and continued to make required debt payments.

Table 2: Operating Results and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues			
Net patient service revenues	\$ 15,019,188	\$ 15,758,230	\$ 13,786,858
Government incentive for electronic health records	25,500	37,095	-
Other revenue	55,514	93,182	112,202
Total operating revenues	<u>15,100,202</u>	<u>15,888,507</u>	<u>13,899,060</u>
Operating Expenses			
Salaries and benefits	7,897,914	6,963,516	6,901,951
Supplies, purchased services, and other	6,169,159	6,640,817	5,761,396
Depreciation	1,417,520	1,408,540	1,449,477
Total operating expenses	<u>15,484,593</u>	<u>15,012,873</u>	<u>14,112,824</u>
Operating Income (Loss)	<u>(384,391)</u>	<u>875,634</u>	<u>(213,764)</u>
Nonoperating Revenues (Expenses)			
Gain on disposal of assets	100	-	-
Investment income	13,033	9,075	6,481
Interest expense	(786,133)	(815,796)	(816,319)
Noncapital grants and contributions	82,233	136,697	68,212
Property taxes	519,463	465,625	473,495
Total nonoperating revenues (expenses)	<u>(171,304)</u>	<u>(204,399)</u>	<u>(268,131)</u>
Expenses in Excess of (Less Than) Revenue Before Capital Grants and Contributions	(555,695)	671,235	(481,895)
Capital Grants and Contributions	<u>8,900</u>	<u>8,900</u>	<u>-</u>
Change in Net Position	(546,795)	680,135	(481,895)
Net Position, Beginning of the Year	<u>8,633,104</u>	<u>7,952,969</u>	<u>8,434,864</u>
Net Position, End of Year	<u>\$ 8,086,309</u>	<u>\$ 8,633,104</u>	<u>\$ 7,952,969</u>

Operating Income

The first component of the overall change in the District's net position is its operating income - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The District had an operating loss of \$384,391 in 2016 compared to operating income of \$875,634 in 2015.

The primary components of the operating income are:

- Net patient service revenue decreased \$739,042 or 5% in 2016 which is attributable to the Colorado provider fee decreasing approximately \$752,000. In 2015, the net patient service revenue increased \$1,971,372 or 6% in 2015 which was attributable to the District receiving approximately \$1,169,000 of retroactive provider fee reimbursement.
- Salaries and benefits increased \$934,398 or 13% in 2016 and \$61,565 or 1% in 2015.
- Supplies, purchased services and other expenses decreased \$471,658 or 7% in 2016 and increased \$879,565 or 15% in 2015.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property tax income and interest expense. Property tax income increased \$53,838 or 12% in 2016 and decreased \$7,870 or 2% in 2015. Interest expense decreased \$29,663 or 4% in 2016 and \$523 or 0.1% in 2015.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. The principle changes in the District's nonoperating cash flows were:

- Net cash used by capital and capital related financing activities increased in 2016 by \$157,907 or 11% and increased in 2015 by \$10,356 or 1%.
- Net cash provided by investing activities increased in 2016 by \$1,156 or 25% and decreased in 2015 by \$84,570 or 95%.

Capital Assets

In 2016, the District purchased \$754,953 of capital assets and had \$8,725,815 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2015, the District purchased \$186,024 of capital assets and had \$9,388,382 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. This investment in capital assets includes land, land improvements, buildings and improvements, equipment, and construction in progress.

Debt

As of December 31, 2016 and 2015, the District had \$705,670 and \$398,170 in outstanding capital lease obligations as detailed in notes 5 and 6.

The District has bond obligations outstanding of \$11,125,000 and \$11,445,000 as of December 31, 2016 and 2015. These obligations require the District to maintain a debt service coverage ratio of 1.25 to 1. These obligations also require the District to maintain a current ratio of 125% and days cash on hand of 60 days.

Requests for Information

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 financial information, contact Kit Carson County Health Service District, 286 16th Street, Burlington, Colorado 80807-1651.

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	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,252,235	\$ 6,082,562
Short-term investments	690,245	686,174
Noncurrent investments required for current liabilities	799,774	704,245
Receivables		
Patient, net of estimated uncollectibles of approximately \$1,430,000 in 2016 and \$1,944,000 in 2015	2,567,682	2,664,681
Estimated third-party settlements	512,709	-
Property tax	480,962	463,768
Other	29,372	41,936
Supplies	477,787	460,850
Prepaid expenses	284,041	45,772
Total current assets	<u>11,094,807</u>	<u>11,149,988</u>
Noncurrent Cash and Investments		
Restricted by trustee for debt service	1,088,388	1,088,388
Internally designated for capital acquisitions	1,006,943	993,171
Total noncurrent cash and investments	<u>2,095,331</u>	<u>2,081,559</u>
Capital Assets		
Land and construction in progress	456,789	327,253
Depreciable capital assets, net of accumulated depreciation	8,269,026	9,061,129
Total capital assets	<u>8,725,815</u>	<u>9,388,382</u>
Total assets	<u>\$ 21,915,953</u>	<u>\$ 22,619,929</u>

Kit Carson County Health Service District
Statements of Net Position
December 31, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 515,510	\$ 411,523
Accounts payable		
Trade	740,246	701,988
Estimated third-party settlements	-	13,860
Accrued expenses		
Salaries and wages	373,453	562,046
Interest	404,313	401,993
Total current liabilities	2,033,522	2,091,410
Long-Term Debt, Less Current Maturities	11,315,160	11,431,647
Total liabilities	13,348,682	13,523,057
Deferred Inflows of Resources - Property Taxes	480,962	463,768
Net Position		
Net investment in capital assets	(1,708,157)	(1,058,090)
Restricted		
Expendable for debt service	491,464	387,874
Unrestricted	9,303,002	9,303,320
Total net position	8,086,309	8,633,104
Total liabilities, deferred inflows of resources and net position	\$ 21,915,953	\$ 22,619,929

Kit Carson County Health Service District
Statements of Revenue, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenues (net of provision for bad debts of \$1,211,495 in 2016 and \$862,998 in 2015)	\$ 15,019,188	\$ 15,758,230
Government incentive for electronic health records	25,500	37,095
Other	55,514	93,182
Total operating revenues	15,100,202	15,888,507
Operating Expenses		
Salaries and wages	6,595,501	5,921,552
Employee benefits	1,302,413	1,041,964
Supplies and expenses	1,504,698	1,670,638
Professional fees and purchases services	2,414,688	2,593,769
Depreciation	1,417,520	1,408,540
Medicaid provider fees	348,896	406,529
Equipment service agreements	406,550	378,690
Utilities	308,123	271,977
Insurance	111,392	101,285
Other	1,074,812	1,217,929
Total operating expenses	15,484,593	15,012,873
Operating Income (Loss)	(384,391)	875,634
Nonoperating Revenues (Expenses)		
Investment income	13,033	9,075
Interest expense	(786,133)	(815,796)
Noncapital grants and contributions	82,233	136,697
Property taxes	519,463	465,625
Gain on disposal of assets	100	-
Total nonoperating revenues (expenses)	(171,304)	(204,399)
Revenues in Excess of (Less Than) Expenses Before Capital Grants and Contributions	(555,695)	671,235
Capital Grants and Contributions	8,900	8,900
Change in Net Position	(546,795)	680,135
Net Position, Beginning of Year	8,633,104	7,952,969
Net Position, End of Year	\$ 8,086,309	\$ 8,633,104

Kit Carson County Health Service District
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 14,589,618	\$ 15,381,835
Payments to suppliers and contractors	(6,386,107)	(6,246,632)
Payments to and on behalf of employees	(8,086,507)	(7,008,917)
Other receipts, net	93,578	111,670
Net Cash from Operating Activities	<u>210,582</u>	<u>2,237,956</u>
Noncapital Financing Activities		
Noncapital grants and contributions	82,233	136,697
Property taxes received	519,463	470,328
Net Cash from Noncapital Financing Activities	<u>601,696</u>	<u>607,025</u>
Capital and Capital Related Financing Activities		
Capital grants and contributions	8,900	8,900
Principal payments on long-term debt	(454,606)	(402,542)
Interest paid	(783,813)	(806,869)
Purchase and construction of capital assets	(312,847)	(186,024)
Proceeds from sale of capital assets	100	2,176
Net Cash used for Capital and Capital Related Financing Activities	<u>(1,542,266)</u>	<u>(1,384,359)</u>
Investing Activities		
Purchase of investments	(1,382,451)	(1,597,197)
Sales and maturities of investments	1,375,229	1,592,777
Investment income	13,033	9,075
Net Cash from Investing Activities	<u>5,811</u>	<u>4,655</u>
Net Change in Cash and Cash Equivalents	(724,177)	1,465,277
Cash and Cash Equivalents, Beginning of Year	8,188,508	6,723,231
Cash and Cash Equivalents, End of Year	<u>\$ 7,464,331</u>	<u>\$ 8,188,508</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 5,252,235	\$ 6,082,562
Noncurrent investments required for current liabilities	799,774	704,245
Restricted by trustee for debt service	1,088,388	1,088,388
Internally designated for capital acquisitions	323,934	313,313
	<u>\$ 7,464,331</u>	<u>\$ 8,188,508</u>

Kit Carson County Health Service District
 Statements of Cash Flows
 Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating income (loss)	\$ (384,391)	\$ 875,634
Provision for bad debts	1,211,495	862,998
Depreciation	1,417,520	1,408,540
Changes in operating assets and liabilities		
Patient accounts receivable	(1,114,496)	(1,366,361)
Other receivables	12,564	(18,607)
Supplies	(16,937)	47,512
Prepaid expenses	(238,269)	39,077
Trade accounts payable	38,258	307,596
Accrued salaries and wages	(188,593)	(45,401)
Estimated third party settlements	(526,569)	126,968
	\$ 210,582	\$ 2,237,956
Supplemental Disclosure of Noncash Investing and Financing Activities		
Equipment financed through capital lease arrangement	\$ 442,106	\$ -

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Kit Carson County Health Service District (District) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

Reporting Entity

The District consists of Kit Carson County Memorial Hospital (Hospital), licensed as a 19-bed critical access hospital; KCCMH Home Health; Parke Health Center (PHC), a rural health clinic, located in Burlington, Colorado; and Stratton Medical Clinic (SMC), a rural health clinic, located in Stratton, Colorado. The District's seven-member Board of Directors is elected by the citizens of Kit Carson County (County) to operate, control and manage the District.

In 1996, the County electorate approved a ballot issue authorizing the formation of the District. In accordance with an agreement with the County, the District assumed the functions of the Hospital as of January 1, 1998. The County continued a 3.0 mil levy for the operation and maintenance of the facility until 1999, when the levy was discontinued and the District began to levy its own taxes at 3.0 mils.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District does not have a component unit which meets the GASB criteria.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the District's assets, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted, expendable for debt service are non-capital assets that must be used for a particular purpose as specified by creditors, grantors, or contributors external to the District including amounts deposited with trustees as required by the bond indenture, reduced by liabilities related to those assets. Generally, a liability relates to restricted assets if the asset resulted from a resource flow that also resulted in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Restricted, nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the District. The District had no restricted, nonexpendable net position at December 31, 2016 and 2015.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

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

The net patient service revenue for the years ended December 31, 2016 and 2015 increased approximately \$252,000 and decreased approximately \$409,000 due to removal of allowances previously estimated that related to patient receivables and final third party payor settlements which are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated funds or restricted cash and investments. For purposes of the statement of cash flows, the District considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Short-term Investments

Short-term investments include certificates of deposit with an original maturity date of three to twelve months and are not considered to be cash equivalents, excluding internally designated and restricted assets.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables excluding amounts due from third party payors are turned over to a collection agency if receivables remain unpaid after the District's collection procedures. The District does not charge interest on unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are valued at the lower of cost (first-in, first-out method) or market.

Property Tax Receivable and Revenue

Property tax receivable is recognized on the lien date, which is January 1 of the tax year in Colorado. The property tax receivable represents taxes certified by the Board of Directors to be collected in the next fiscal year. However, by statute, the tax asking becomes effective on the first day of the following year. Although the property tax receivable has been recorded, the related revenue is considered a deferred inflows of resources – unavailable revenue and will not be recognized as revenue until the year in which it is levied.

Lien date	-	January 1
Levy date	-	January 1, succeeding year
Due dates	-	February 28 and June 15, succeeding year

Noncurrent Cash and Investments

Noncurrent cash and investments include assets restricted by trustee for debt reserve and assets set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Noncurrent cash and investments that are required for obligations classified as current liabilities are reported in current assets.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation in the financial statements. The estimated useful lives of capital assets are as follows:

Buildings and improvements	5-50 years
Fixed equipment	3-20 years
Major movable equipment	2-20 years

Gifts of capital assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as restricted net position.

Compensated Absences

Employees of the District earn annual paid time off (PTO) at various specific rates during their period of employment. PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent they are paid during the year and the vested amount is recorded as a current liability.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources reported in the financial statements relate to property taxes. The property taxes will be recognized as revenue in the period in which the taxes are levied.

Operating Revenue and Expenses

The District's statement of revenue, expenses and changes in net position distinguishes between operating and nonoperating revenue and expenses. Operating revenue and expenses result from exchange transactions associated with providing health care services, the District's principal activity and the costs of providing those services, including depreciation and excluding interest costs. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the District's charity care policy were approximately \$197,000 and \$184,000 for the years ended December 31, 2016 and 2015. Total direct and indirect costs related to these foregone charges were approximately \$140,000 and \$123,000 at December 31, 2016 and 2015, based on an average ratio of cost to gross charges.

Grants and Contributions

The District may receive grants as well as contributions from individuals and private organizations. Revenue 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. Amounts that are unrestricted or that are restricted to a specific purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after revenues (less than) in excess of expenses.

Note 2 - Net Patient Service Revenue

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 is licensed as a Critical Access Hospital (CAH). The District is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the District and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The District's Medicare cost reports have been audited by the MAC through the year ended December 31, 2014. Clinical services are paid on a cost basis or fixed fee schedule. Home health services are reimbursed on a prospective payment basis and hospice care is reimbursed on a daily per diem rate.

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. Inpatient nonacute services, certain outpatient services, and defined capital costs related to Medicaid beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost-reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. The Districts Medicaid cost reports have been audited through the year ended December 31, 2014.

The District has also entered into payment agreements with certain commercial insurance carriers and other 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.

Concentrations of gross revenue by major payor accounted for the following percentages of the District's patient service revenues for the years ended December 31, 2016 and 2015:

	2016	2015
Medicare	44%	40%
Medicaid	21%	19%
Blue Cross Blue Shield	13%	11%
Other commercial payors	17%	22%
Self pay and other	5%	8%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other 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.

The state of Colorado provider fee program, approved by the Centers for Medicare and Medicaid Services (CMS), assesses a fee to all hospitals in the state based on bed size and payor mix. The state of Colorado uses the fees to supplement state budget funds for the Medicaid program, which brings matching federal monies into the program, enabling the state of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible. The state of Colorado Hospital Association manages the program and assesses a small fee for this service.

The following amounts were recorded associated with the provider fee program for the years ended December 31, 2016 and 2015:

	2016	2015
Provider fee recovery revenue, included in net patient service revenue	\$ 1,821,683	2,573,516
Medicaid provider fees expense	(348,896)	(406,529)
Net effect	\$ 1,472,787	\$ 2,166,987

Net patient service revenue for the years ended December 31, 2016 and 2015 increased approximately \$0 and \$346,000 due to the retroactive reimbursement received from the Colorado provider fee program.

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of December 31, 2016 and 2015 are included in the District's statement of net position as follows:

	2016	2015
Carrying Amount		
Cash and deposits	\$ 6,949,423	\$ 7,761,907
Investments	1,888,162	1,792,633
Total	\$ 8,837,585	\$ 9,554,540

Deposits are reported in the following statement of net position captions:

	2016	2015
Cash and cash equivalents	\$ 5,252,235	\$ 6,082,562
Short-term investments	690,245	686,174
Noncurrent investments required for current liabilities	799,774	704,245
Restricted by trustee for debt service	1,088,388	1,088,388
Internally designated for capital acquisitions	1,006,943	993,171
	\$ 8,837,585	\$ 9,554,540

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The District's investment policy does not address custodial credit risk.

PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2016, the District's deposits in banks were entirely covered by federal depository insurance and PDPA.

Investments

The District had the following investments and maturities at December 31, 2016 and 2015:

December 31, 2016		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Rating	Less Than 1	1 - 5	6 - 10
Money Market Fund	\$ 1,888,162	AAA	\$ 1,888,162	\$ -	\$ -

December 31, 2015		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Rating	Less Than 1	1 - 5	6 - 10
Money Market Fund	\$ 1,792,633	AAA	\$ 1,792,633	\$ -	\$ -

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State Statutes limits the investment in bonds, debentures or notes of any corporation to be rated "A" or higher by nationally recognized statistical rating organizations. As of December 31, 2016 and 2015, the District was compliant with State Statutes with regard to credit risk. The District has no investment policy that would further limit its investment options.

Concentration of Credit Risk

The District will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. The District does not have a formally adopted investment policy for managing concentration of credit risk. However, more than 5% of the District's investments are invested in government money market funds.

Investment Income

The District's investment income on deposits and investments for the years ended December 31, 2016 and 2015 consisted of interest income of \$13,033 and \$9,075.

Note 4 - Capital Assets

Capital assets additions, retirements, and balances for the years ended December 31, 2016 and 2015 are as follows:

	Balance December 31, 2015	Additions	Transfers and Retirements	Balance December 31, 2016
Non-Depreciable Cost				
Land	\$ 176,836	\$ -	\$ -	\$ 176,836
Construction in progress	150,417	129,538	-	279,955
Non-depreciable capital assets	<u>327,253</u>	<u>\$ 129,538</u>	<u>\$ -</u>	<u>456,791</u>
Depreciable Cost				
Building	13,642,285	\$ 5,735	\$ -	13,648,020
Fixed equipment	3,173,001	27,359	-	3,200,360
Major movable equipment	5,102,830	592,321	(38,810)	5,656,341
Total depreciable capital assets	<u>21,918,116</u>	<u>\$ 625,415</u>	<u>\$ (38,810)</u>	<u>22,504,721</u>
Accumulated Depreciation				
Building	6,812,283	\$ 690,517	\$ -	7,502,800
Fixed equipment	1,986,327	257,535	-	2,243,862
Major movable equipment	4,058,377	469,468	(38,810)	4,489,035
Total accumulated depreciation	<u>12,856,987</u>	<u>\$ 1,417,520</u>	<u>\$ (38,810)</u>	<u>14,235,697</u>
Depreciable capital assets, net	<u>9,061,129</u>			<u>8,269,024</u>
Total capital assets, net	<u>\$ 9,388,382</u>			<u>\$ 8,725,815</u>

Construction in progress at December 31, 2016, represents architectural designs to renovate the operating room. Management is evaluating the alternatives and has not committed to a project based on the designs and expected cost or funding is not known at this time.

Kit Carson County Health Service District
Notes to Financial Statements
December 31, 2016 and 2015

	Balance December 31, 2014	Additions	Transfers and Retirements	Balance December 31, 2015
Non-Depreciable Cost				
Land	\$ 176,836	\$ -	\$ -	\$ 176,836
Construction in progress	74,277	76,140		150,417
Non-depreciable capital assets	251,113	\$ 76,140	\$ -	327,253
Depreciable Cost				
Building	13,626,910	\$ 17,551	\$ (2,176)	13,642,285
Fixed equipment	3,159,918	13,083	-	3,173,001
Major movable equipment	5,023,580	79,250	-	5,102,830
Total depreciable capital assets	21,810,408	\$ 109,884	\$ (2,176)	21,918,116
Accumulated Depreciation				
Building	6,115,019	\$ 697,264	\$ -	6,812,283
Fixed equipment	1,726,665	259,662	-	1,986,327
Major movable equipment	3,606,763	451,614	-	4,058,377
Total accumulated depreciation	11,448,447	\$ 1,408,540	\$ -	12,856,987
Depreciable capital assets, net	10,361,961			9,061,129
Total capital assets, net	\$ 10,613,074			\$ 9,388,382

Note 5 - Leases

The District leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended December 31, 2016 and 2015, for all operating leases was \$204,832 and \$353,195. The capitalized leased assets consist of:

	2016	2015
Major movable equipment	\$ 1,056,902	\$ 614,796
Accumulated depreciation	(369,856)	(230,548)
	\$ 687,046	\$ 384,248

Minimum future lease payments for the capital and operating leases are as follows:

<u>Year ending December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2017	\$ 210,768	\$ 100,949
2018	218,928	80,109
2019	187,540	52,703
2020	97,380	7,220
2021	<u>56,805</u>	<u>-</u>
Total minimum lease payments	771,421	<u>\$ 240,981</u>
Less: interest payments	<u>(65,751)</u>	
Present value of future minimum lease payments	<u>\$ 705,670</u>	

Note 6 - Long-Term Debt

A schedule of changes in the District's long-term debt for the years ended December 31, 2016 and 2015 is as follows:

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2016</u>	<u>Amounts Due Within One Year</u>
Bonds payable ⁽¹⁾	\$ 11,445,000	\$ -	\$ (320,000)	\$ 11,125,000	\$ 335,000
Capital leases ⁽²⁾ - Note 5	<u>398,170</u>	<u>442,106</u>	<u>(134,606)</u>	<u>705,670</u>	<u>180,510</u>
Total long-term debt	<u>\$ 11,843,170</u>	<u>\$ 442,106</u>	<u>\$ (454,606)</u>	<u>\$ 11,830,670</u>	<u>\$ 515,510</u>
	<u>Balance December 31, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2015</u>	<u>Amounts Due Within One Year</u>
Bonds payable ⁽¹⁾	\$ 11,745,000	\$ -	\$ (300,000)	\$ 11,445,000	\$ 320,000
Capital leases ⁽²⁾ - Note 5	<u>500,712</u>	<u>-</u>	<u>(102,542)</u>	<u>\$ 398,170</u>	<u>91,523</u>
Total long-term debt	<u>\$ 12,245,712</u>	<u>\$ -</u>	<u>\$ (402,542)</u>	<u>\$ 11,843,170</u>	<u>\$ 411,523</u>

The terms and due dates of the District's long-term debt at December 31, 2016 and 2015 are as follows:

- (1) The Board of Directors adopted a resolution to issue \$12,810,000 Health Care Facilities Revenue Bonds Series 2007 dated November 20, 2007, to finance a facility expansion and improvement project. The bonds are payable in annual installments ranging from \$335,000 to \$1,015,000 through January 2034, with interest payable semiannually at 6.10% to 6.75%. The bond resolution requires, among other things, the establishment of a Reserve Fund to be held by the issuer for the purpose of paying principal and interest on the bonds when sufficient money are unavailable in the Senior Bond Fund into which the loan repayments are deposited in order to pay the principal and interest on the bonds (Note 3). Securitized by revenues of the District.
- (2) Capital lease obligations, at varying rates of imputed interest from 4.00% to 5.98%, with varying maturity dates from December 2019 to July 2021, collateralized by leased equipment. See Note 5 for minimum future lease payments.

Future payments of principal and interest on the bonds payable are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 335,000	\$ 738,542	\$ 1,073,542
2018	360,000	716,175	1,076,175
2019	380,000	691,200	1,071,200
2020	405,000	664,706	1,069,706
2021	435,000	636,356	1,071,356
2022-2026	2,660,000	2,683,125	5,343,125
2027-2031	3,685,000	1,524,488	5,209,488
2032-2034	2,865,000	360,619	3,225,619
Total	<u>\$ 11,125,000</u>	<u>\$ 8,015,211</u>	<u>\$ 19,140,211</u>

Under the terms of the Revenue Bonds, limits are placed on the incurrence of additional borrowing and the District must satisfy certain measures of financial performance as long as the bonds are outstanding.

The provisions of the indenture related to Kit Carson County Health Service District Health Care Facilities Revenue Bond Series 2007, contain covenants pertaining to reporting requirements, current ratio, debt service ratio and maintenance of days cash on hand. For the years ended December 31, 2016 and 2015, the District did not meet the reporting requirement to deliver the audited financial statement within the required 150 days after year-end. Since the District has not complied with the loan agreement, the trustee or holders of at least 25 percent or more in aggregate principal amount of the bonds outstanding may issue a notice of default to the District. Should such a notice of default be issued, the District would have 45 days to remedy the noncompliance.

Note 7 - Retirement Plan

The District participates in the Colorado County Officials and Employees Retirement Plan (the Plan), a defined contribution plan, covering all employees hired prior to January 1, 1984 and all employees who work at least 30 hours each week and were hired subsequent to January 1, 1984. Under a defined contribution plan, the pension benefits a participant will receive depend only on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to the participant's account. Eligible employees and the District each contribute 3% of employee's eligible compensation to the Plan and the District's contributions vest at 20% per year. In addition, employees may contribute additional amounts to the Plan up to the maximum allowed under the Internal Revenue Code.

Retirement plan expense of \$200,785, \$222,371 and \$114,763 for the years ended December 31, 2016, 2015, and 2014 is reflected in the accompanying statement of revenue, expenses and changes in net position.

Note 8 - Concentrations of Credit Risk

The District grants credit without collateral to its patients, most who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2016 and 2015 was as follows:

	2016	2015
Medicare	27%	30%
Medicaid	17%	9%
Other third-party payors	29%	23%
Private pay	27%	38%
	100%	100%

Note 9 - Commitments 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 other than employer health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is a member of the Colorado Hospital Association Trust for Workers' Compensation (the Trust). The Trust was formed to provide workers' compensation insurance to member hospitals in Colorado. The District pays fixed annual premiums to the Trust. The Trust is self-funded and purchases stop loss insurance coverage.

Malpractice Insurance

The District has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. The policy covers individual claims made and reported to the insurer during the policy term. The District is subject to the provisions of the Colorado Governmental Immunity Act which provides a limitation on the liability of the District. In addition, the District maintains an umbrella policy subject to a limit of \$5 million per claim and annual aggregate limit of \$5 million under an occurrence based policy.

Litigations, Claims, and Disputes

The District is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the District.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 10 - Tax, Spending and Debt Limitations

Colorado voters passed an Amendment to the State Constitution, Article X, Section 20, which has several limitations, including raising revenue, spending abilities, and other specific requirements of state and local governments.

The District's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflations and local growth.

Management believes that the District is compliant with the rules of Colorado's Taxpayer's Bill of Rights (TABOR).



Supplementary Information
December 31, 2016 and 2015

Kit Carson County Health Service District



Independent Auditor's Report on Supplementary Information

The Board of Directors
Kit Carson County Health Service District
Burlington, Colorado

We have audited the financial statements of Kit Carson County Health Service District (District) as of and for the years ended December 31, 2016 and 2015, and our report thereon dated June 15, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Revenues, Nonoperating Revenue, and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) presented on pages 26 and 27, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of Revenues, Nonoperating Revenue, and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) has not been subjected to auditing procedures applied in the audit of the financial statements, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Oklahoma City, Oklahoma
June 15, 2017

Kit Carson County Health Service District
Schedule of Revenue, Nonoperating Revenue, and Expenditures – Budget and Actual (Non-GAAP Budgetary
Basis) - Unaudited
Year Ended December 31, 2016

The District employs the following procedures in establishing budgetary data presented in the financial statements:

1. Budgets are required by Colorado statutes and include proposed expenditures and the means of financing them.
2. Public hearings are conducted by the Board of Directors to obtain taxpayer comments.
3. The budget is adopted and appropriations made by formal resolutions.
4. Expenditures may not legally exceed total appropriations. Board of Directors approval is required for change in the adopted budget.
5. Budget appropriations lapse at the end of each year.
6. The District adopts budgets on the accrual basis that included all financing sources and uses. The following is a budgetary comparison and a summary of the adjustments necessary to convert to the budgetary basis from GAAP used in presentation of the statements of revenue, expenses and changes in net position for the year ended December 31, 2016:

	Budgeted	Actual	Favorable (Unfavorable) Variance
Operating Revenue			
Net patient service revenue	\$ 15,873,025	\$ 15,019,188	\$ (853,837)
Other operating revenue	35,926	81,014	45,088
	15,908,951	15,100,202	(808,749)
Nonoperating Revenue			
Share of property tax	474,828	519,463	44,635
Investment income	5,952	13,033	7,081
Noncapital grants and contributions	74,345	82,233	7,888
Gain on disposal of assets	-	100	100
	555,125	614,829	59,604
Capital Grants and Contributions	-	8,900	8,900
Total budgetary based revenue	\$ 16,464,076	\$ 15,723,931	\$ (740,245)

Kit Carson County Health Service District
Schedule of Revenue, Nonoperating Revenue, and Expenditures – Budget and Actual (Non-GAAP Budgetary
Basis) - Unaudited
Year Ended December 31, 2016

	<u>Budgeted</u>	<u>Actual</u>	<u>Favorable (Unfavorable) Variance</u>
Operating Expenses			
Salaries and wages	\$ 5,925,309	\$ 6,595,501	\$ (670,192)
Other operating expenses	<u>8,338,391</u>	<u>8,889,092</u>	<u>(550,701)</u>
Total operating expenses	14,263,700	15,484,593	(1,220,893)
Adjustments to reconcile GAAP based expenses to budgetary based expenses			
Less			
Depreciation	(1,373,430)	(1,417,520)	44,090
Adjustments for interest	(788,736)	(786,133)	(2,603)
Add			
Capital expenditures	746,037	754,953	(8,916)
Principal retirement for lease payments	6,391	134,606	(128,215)
Interest paid for lease payments	31,684	27,303	4,381
Principal retirement for revenue bonds	320,000	320,000	-
Debt service - bond interest	<u>760,840</u>	<u>760,840</u>	<u>-</u>
Total budgetary based expenditures	<u>\$ 13,966,486</u>	<u>\$ 15,278,642</u>	<u>\$ (1,312,156)</u>