

# Kremmling Memorial Hospital District

Basic Financial Statements and  
Independent Auditors' Report

December 31, 2016 and 2015



**RECEIVED**

*By the Office of the State Auditor at 1:27 pm, Jun 30, 2017*



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

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DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Kremmling Memorial Hospital District  
Kremmling, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Kremmling Memorial Hospital District (the District) as of 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*

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

### *Other Information*

Our audits were 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.

The schedule of budget and actual revenues 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 basic financial statements as a whole.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
May 18, 2017

**Kremmling Memorial Hospital District**  
**Statements of Net Position**  
**December 31, 2016 and 2015**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2016</b>	<b>2015</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,358,824	\$ 1,373,562
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$3,919,000 and \$3,707,000, respectively	4,897,423	3,517,175
Property taxes	1,118,446	1,201,477
Electronic health records incentive receivable	-	393,826
Estimated third-party payor settlements	-	276,981
Inventories	586,834	530,010
Prepaid expenses and other current assets	283,676	183,743
Total current assets	9,245,203	7,476,774
<i>Noncurrent assets</i>		
Assets limited as to use, cash and cash equivalents	893,106	410,301
Capital assets, net	17,345,096	18,010,175
Total noncurrent assets	18,238,202	18,420,476
Total assets	27,483,405	25,897,250
<i>Deferred outflows of resources, deferred charge on debt refunding</i>	691,018	711,958
<b>Total assets and deferred outflows of resources</b>	<b>\$ 28,174,423</b>	<b>\$ 26,609,208</b>

*See accompanying notes to basic financial statements.*

**Kremmling Memorial Hospital District  
Statements of Net Position (Continued)  
December 31, 2016 and 2015**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>2016</b>	<b>2015</b>
<i>Current liabilities</i>		
Accounts payable	\$ 1,223,284	\$ 1,625,921
Accrued compensation and related liabilities	1,535,197	1,192,134
Current maturities of long-term debt	407,810	359,346
Current maturities of capital lease obligations	80,807	324,198
Interest payable	78,207	66,215
Estimated third-party payor settlements	1,215,000	791,408
Total current liabilities	<b>4,540,305</b>	4,359,222
<i>Capital lease obligations, net of current maturities</i>	<b>131,564</b>	220,141
<i>Long-term debt, net of current maturities</i>	<b>23,199,421</b>	23,640,654
Total liabilities	<b>27,871,290</b>	28,220,017
<i>Deferred inflows of resources, property tax levy</i>	<b>1,112,368</b>	1,195,365
Total liabilities and deferred inflows of resources	<b>28,983,658</b>	29,415,382
<i>Net position</i>		
Net investment in capital assets	(5,861,695)	(5,623,624)
Unrestricted	4,937,068	2,817,450
Restricted	115,392	-
Total net position (deficit)	<b>(809,235)</b>	(2,806,174)
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 28,174,423</b>	<b>\$ 26,609,208</b>

*See accompanying notes to basic financial statements.*

**Kremmling Memorial Hospital District**  
**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 \$2,375,000 and \$4,029,000, respectively	\$ 26,295,227	\$ 23,157,071
Grants	161,393	89,550
Electronic health records incentive	-	50,091
Other	326,075	127,786
<b>Total operating revenues</b>	<b>26,782,695</b>	<b>23,424,498</b>
<i>Operating expenses</i>		
Salaries and wages	12,746,645	11,407,481
Employee benefits	3,075,724	2,604,637
Professional fees and other purchased services	4,341,137	4,623,075
Supplies	1,839,759	1,322,456
Depreciation and amortization	1,395,897	1,547,977
Insurance	215,173	182,775
Utilities	371,098	403,815
Repairs and maintenance	165,691	122,184
Leases and rentals	235,986	188,824
Provider fees	354,105	447,511
Other	464,715	326,087
<b>Total operating expenses</b>	<b>25,205,930</b>	<b>23,176,822</b>
<i>Operating income</i>	<b>1,576,765</b>	<b>247,676</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	1,269,773	1,354,521
Interest income	8,959	790
Noncapital grants and contributions	6,044	2,817
Debt issuance costs	-	(619,461)
Interest expense	(864,602)	(1,805,502)
<b>Total nonoperating revenues (expenses), net</b>	<b>420,174</b>	<b>(1,066,835)</b>
Change in net position before gain on debt forgiveness	1,996,939	(819,159)
<i>Gain on debt forgiveness</i>	-	2,090,684
Change in net position	1,996,939	1,271,525
Net position, beginning of year	(2,806,174)	(4,077,699)
<b>Net position, end of year</b>	<b>\$ (809,235)</b>	<b>\$ (2,806,174)</b>

See accompanying notes to basic financial statements.

**Kremmling Memorial Hospital District  
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	\$ 25,615,552	\$ 21,950,342
Grant revenue	161,393	89,550
Electronic health records incentive payment	393,826	57,312
Other receipts	326,075	127,786
Payments to and on behalf of employees	(15,479,306)	(13,632,715)
Payments to suppliers and contractors	(8,547,058)	(7,963,375)
Net cash provided by operating activities	<b>2,470,482</b>	628,900
<i>Cash flows from noncapital financing activities</i>		
Taxation for operations	1,269,807	1,349,574
Contributions	6,044	2,817
Net cash provided by noncapital financing activities	<b>1,275,851</b>	1,352,391
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(660,909)	(85,963)
Principal paid on capital lease obligations	(401,877)	(388,139)
Principal paid on long-term debt	(392,769)	(22,615,000)
Interest paid on long-term debt	(831,670)	(1,668,476)
Payments for debt issue costs	-	(619,461)
Proceeds from the issuance of long-term debt	-	24,000,000
Payments for debt refunding	-	(427,300)
Net cash used in capital and related financing activities	<b>(2,287,225)</b>	(1,804,339)
<i>Cash flows from investing activities</i>		
Interest income	8,959	790
Net increase in cash and cash equivalents	<b>1,468,067</b>	177,742
Cash and cash equivalents, beginning of year	<b>1,783,863</b>	1,606,121
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,251,930</b>	<b>\$ 1,783,863</b>

*See accompanying notes to basic financial statements.*

**Kremmling Memorial Hospital District  
Statements of Cash Flows (Continued)  
Years Ended December 31, 2016 and 2015**

	2016	2015
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents in current assets	\$ 2,358,824	\$ 1,373,562
Assets limited as to use, cash and cash equivalents	893,106	410,301
<b>Total cash and cash equivalents</b>	<b>\$ 3,251,930</b>	<b>\$ 1,783,863</b>
<b><i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i></b>		
Operating income	\$ 1,576,765	\$ 247,676
<i>Adjustments to reconcile operating income to net cash provided by operating activities:</i>		
Depreciation and amortization	1,395,897	1,547,977
Provision for bad debts	2,374,714	4,028,633
Decrease (increase) in assets:		
Patient accounts receivable, net	(3,754,962)	(4,727,057)
Electronic health records incentive receivable	393,826	7,221
Estimated third-party payor settlements	276,981	(276,981)
Inventories	(56,824)	(12,829)
Prepaid expenses and other current assets	(99,933)	(30,501)
Increase (decrease) in liabilities:		
Accounts payable	(402,637)	(303,318)
Accrued compensation and related liabilities	343,063	379,403
Estimated third-party payor settlements	423,592	(231,324)
<b>Net cash provided by operating activities</b>	<b>\$ 2,470,482</b>	<b>\$ 628,900</b>

***Noncash Capital and Related Financing Activities***

The District financed \$69,909 and \$253,883 of equipment through capital lease obligations with various lessors in 2016 and 2015, respectively.

In 2015, \$2,090,684 of the District's debt held by Catholic Health Initiatives Colorado was forgiven, which resulted in recognition of a gain on debt forgiveness in that amount. Included in this gain was forgiven principal of \$1,350,000 and accrued interest of \$740,684.

*See accompanying notes to basic financial statements.*

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements  
Years Ended December 31, 2016 and 2015**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Kremmling Memorial Hospital District (the District) has a 23-bed critical care hospital, located in Kremmling, Colorado; a 2-bed critical care hospital, located in Granby, Colorado; and a rural health clinic located in Walden, Colorado. The District provides healthcare services to Grand, Summit, and Jackson Counties. The District was created in 1973 as a political subdivision of the state of Colorado. As a political subdivision of the state of Colorado, the District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The District is governed by a Board of Directors consisting of five members elected by the residents of the District. The District is not a component unit of another government entity.

As required by accounting principles generally accepted in the United States of America, the basic financial statements present the District – the primary government – and its component unit. The component unit discussed below is included in the District’s reporting entity because of the significance of its operations and financial relationship with the District. The Middle Park Facilities Corporation (the Corporation) is a component unit of the District since its trustees are appointed by the District’s Board of Directors. In 2016, the Corporation was no longer considered a significant component unit.

The Corporation was established for the purpose of acquiring facilities which were then leased to the District until November 2015, when the lease was dissolved in connection with issuance of debt through the United States Department of Agriculture. Until November 2015, the Corporation held the related debt incurred to finance the construction and acquisition of the related facilities. In November 2015, the District issued new debt, of which the proceeds were used to purchase the lease. The Corporation then used these proceeds to pay off debt held in the name of the Corporation (see Note 7). The Corporation is presented as a blended component unit of the District. The assets, liabilities, revenues, and expenses are included in the District’s financial statements.

**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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***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 of the related expense.

**Kremmling Memorial Hospital District  
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)**

*Inventories* – Supply inventories are stated at cost, determined using the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operations of the District.

*Assets limited as to use* – Assets limited as to use include assets held by the trustee under indenture agreement for loan service requirements and designated by the Board for debt service and capital asset acquisitions.

*Capital assets* – It is the District’s policy to capitalize property and equipment over \$5,000 and a useful life of at least three years; lesser amounts are expensed. Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets other than land are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense.

Estimated useful lives are as follows:

Land improvements	5 to 40 years
Buildings and improvements	5 to 40 years
Equipment	3 to 20 years

*Compensated absences* – The District’s policies permit most employees to accumulate vacation benefits that may be realized as paid time off. The expense and the related liability are recognized as vacation benefits as earned. Compensated absence liabilities are computed using the regular pay rate in effect at the statement of net position dates plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

*Net position* – Net position of the District is classified into three components. *Net investment in capital assets* consists of 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 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 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, grants, and contributions received for purposes other than capital asset acquisition, 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.

**Kremmling Memorial Hospital District  
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)**

*Grants and contributions* – From time to time, the District receives grants from the state of Colorado and others, 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. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses. Grants that are restricted for specific projects or purposes related to the District's operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

*Subsequent events* – The District has evaluated subsequent events and transactions through May 18, 2017, the date on which the financial statements were available to be issued.

**2. Bank Deposits and Investments:**

*Deposits* – The Colorado Public Deposit Protection Act (CPDPA) requires financial institutions to collateralize any uninsured public deposits. The bank balance at each institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Any excess of deposits over the FDIC limit not insured is covered by collateral pledged by the financial institution in accordance with the CPDPA.

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 U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, banker's acceptance notes, commercial paper, repurchase agreements, money market funds, and guaranteed investment contracts. All investments must be held by the District, in its name, or in custody of a third party on behalf of the local government. The District had no investments at December 31, 2016 and 2015.

**Kremmling Memorial Hospital District**  
**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 year. 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 by the District were as follows:

	<b>2016</b>	<b>2015</b>
Receivable from patients and their insurance carriers	\$ 7,337,078	\$ 6,001,561
Receivable from Medicare	782,896	929,692
Receivable from Medicaid	695,967	292,898
Total patient accounts receivable	<b>8,815,941</b>	7,224,151
Less allowance for uncollectible amounts	<b>(3,918,518)</b>	(3,706,976)
<b>Patient accounts receivable, net</b>	<b>\$ 4,897,423</b>	<b>\$ 3,517,175</b>

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**4. Assets Limited as to Use:**

The composition of assets limited as to use reported by the District consisted of the following amounts:

	2016	2015
<i>Noncurrent assets</i>		
Cash and cash equivalents:		
Under bond agreement for debt reserve	\$ 115,392	\$ -
Under bond agreement for bond principal and interest	-	24,906
Under bond agreement for capital acquisition	-	240,000
Board designated for future capital projects	777,714	145,395
<b>Total assets limited as to use</b>	<b>\$ 893,106</b>	<b>\$ 410,301</b>

**5. Capital Assets:**

Capital asset additions, retirements, transfers, and balances reported by the District were as follows:

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 1,994,992	\$ -	\$ -	\$ -	\$ 1,994,992
Construction in progress	-	560,000	-	-	560,000
Total capital assets not being depreciated	1,994,992	560,000	-	-	2,554,992
<i>Capital assets being depreciated</i>					
Land improvements	527,994	31,382	(44,525)	-	514,851
Buildings and improvements	15,733,752	55,615	(272,017)	-	15,517,350
Equipment	10,602,771	185,697	(1,942,574)	-	8,845,894
Total capital assets being depreciated	26,864,517	272,694	(2,259,116)	-	24,878,095
<i>Less accumulated depreciation for</i>					
Land improvements	183,820	22,697	(44,525)	-	161,992
Buildings and improvements	3,838,212	489,657	(272,017)	-	4,055,852
Equipment	6,827,302	883,543	(1,840,698)	-	5,870,147
Total accumulated depreciation	10,849,334	1,395,897	(2,157,240)	-	10,087,991
<i>Total capital assets being depreciated, net</i>	16,015,183	(1,123,203)	(101,876)	-	14,790,104
<b>Capital assets, net</b>	<b>\$ 18,010,175</b>	<b>\$ (563,203)</b>	<b>\$ (101,876)</b>	<b>\$ -</b>	<b>\$ 17,345,096</b>

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2016 and 2015**

**5. Capital Assets (continued):**

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 1,994,992	\$ -	\$ -	\$ -	\$ 1,994,992
Total capital assets not being depreciated	1,994,992	-	-	-	1,994,992
<i>Capital assets being depreciated</i>					
Land improvements	514,634	13,360	-	-	527,994
Buildings and improvements	15,717,080	16,672	-	-	15,733,752
Equipment	10,342,107	260,664	-	-	10,602,771
Total capital assets being depreciated	26,573,821	290,696	-	-	26,864,517
<i>Less accumulated depreciation for</i>					
Land improvements	160,137	23,683	-	-	183,820
Buildings and improvements	3,340,780	497,432	-	-	3,838,212
Equipment	5,800,440	1,026,862	-	-	6,827,302
Total accumulated depreciation	9,301,357	1,547,977	-	-	10,849,334
<i>Total capital assets being depreciated, net</i>	17,272,464	(1,257,281)	-	-	16,015,183
<b>Capital assets, net</b>	<b>\$ 19,267,456</b>	<b>\$ (1,257,281)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,010,175</b>

Construction in progress as of December 31, 2016, is composed of costs related to the implementation of Epic electronic health records software and hardware. This project was placed into service April 9, 2017, with an additional cost of \$335,000.

**6. Healthcare Self-Insurance:**

The District partially self-insures the cost of employee healthcare benefits as it purchases annual stop-loss insurance coverage for all claims in excess of \$50,000 per claim. Liabilities on the statements of net position include an accrual for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The District's self-insurance is recorded in accrued compensation and related liabilities.

Changes in the District's claim liability are as follows:

	2016	2015
Claim liability, beginning of year	\$ 104,379	\$ 173,011
Current year claims and changes in estimates	2,030,493	1,485,415
Claims payments	(1,906,879)	(1,554,047)
Claim liability, end of year	\$ 227,993	\$ 104,379

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2016 and 2015**

**7. Long-term Debt and Other Noncurrent Liabilities:**

A schedule of changes in the District's noncurrent liabilities follows:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due within One Year
Series 2015 revenue bonds	\$ 24,000,000	\$ -	\$ (392,769)	\$ 23,607,231	\$ 407,810
Capital lease obligations	544,339	69,909	(401,877)	212,371	80,807
<b>Total long-term debt</b>	<b>\$ 24,544,339</b>	<b>\$ 69,909</b>	<b>\$ (794,646)</b>	<b>\$ 23,819,602</b>	<b>\$ 488,617</b>

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amounts Due Within One Year
Series 2015 revenue bonds	\$ -	\$ 24,000,000	\$ -	\$ 24,000,000	\$ 359,346
Series 2010 bond certificate	21,365,000	-	(21,365,000)	-	-
Bond issue discount	(293,332)	-	293,332	-	-
Note payable	2,600,000	-	(2,600,000)	-	-
Capital lease obligations	678,595	253,883	(388,139)	544,339	324,198
<b>Total long-term debt</b>	<b>\$ 24,350,263</b>	<b>\$ 24,253,883</b>	<b>\$ (24,059,807)</b>	<b>\$ 24,544,339</b>	<b>\$ 683,544</b>

The terms and due dates of the District's long-term debt and capital lease obligations are as follows:

- Kremmling Memorial Hospital District Hospital Facilities Revenue Bonds Series 2015 (the 2015 Bonds), issued through the Rural Housing Service of the United States Department of Agriculture (USDA), in the original amount of \$24,000,000, dated November 2015. The 2015 Bonds are payable from the fees, rates and charges for services, programs, and facilities furnished by the District. The 2015 Bonds are payable in annual principal installments ranging from \$407,810 to \$1,126,393, plus interest of 3.25% through December 2050.

In connection with issuance of the 2015 Bonds, the District's lease agreement with the Corporation was terminated, resulting in transfer of assets previously held by the Corporation to the District. Proceeds from this transaction were used to pay off the 2010 Bonds. In addition, a purchase agreement was signed for the District to purchase property owned by the Corporation, which was held as collateral under the Centura loan. As a result of these transactions, debt service payments for the District will be decreased by \$12,959,075, which is primarily due to lower interest rates, with an economic gain of \$10,285,008.

The 2015 Bonds include financial covenants that must be complied with as a condition of the bonds.

- Capital lease obligations, at varying rates of imputed interest ranging from 9.3% to 10.40%, collateralized by the related equipment with maturity dates ranging from 2016 to 2021.

The capital lease obligations are reflected in the District's assets and liabilities. The assets acquired under the capital leases had a capitalized cost of \$1,716,744 and \$1,755,252 as of December 31, 2016 and 2015, respectively, and accumulated amortization of \$1,553,523 and \$689,170 as of December 31, 2016 and 2015, respectively. Amortization expense is included in depreciation expense on the statements of revenues, expenses, and changes in net position.

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**7. Long-term Debt and Other Noncurrent Liabilities (continued):**

Scheduled principal and interest repayments on long-term debt and capital lease obligations are as follows:

<b>Years Ending December 31,</b>	<b>Long-term Debt</b>		<b>Capital Lease Obligations</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 407,810	\$ 763,870	\$ 80,807	\$ 16,556
2018	421,171	750,509	43,236	11,067
2019	434,971	736,709	46,963	6,581
2020	447,200	724,480	27,464	2,344
2021	463,874	707,806	13,901	599
2022-2026	2,555,578	3,302,822	-	-
2027-2031	3,002,730	2,855,670	-	-
2032-2036	3,526,951	2,331,449	-	-
2037-2041	4,145,750	1,712,650	-	-
2042-2046	4,871,211	987,189	-	-
2047-2050	3,329,985	192,305	-	-
	<b>\$ 23,607,231</b>	<b>\$ 15,065,459</b>	<b>\$ 212,371</b>	<b>\$ 37,147</b>

**8. 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.

The District's provision for bad debts and writeoffs decreased significantly from the prior year, due to better collections in 2016, as billing services were brought back in house. The District has not changed its charity care or uninsured discount policies during fiscal years 2016 or 2015.

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**8. Net Patient Service Revenue (continued):**

The District records a significant provision for bad debts related to uninsured patients in the period the services are provided. 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:

	<b>2016</b>	<b>2015</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 7,213,767	\$ 7,697,659
Medicaid	2,000,363	2,123,491
Other third-party payors	14,219,089	11,635,256
Patients	3,803,307	3,439,848
Supplemental payments	2,131,320	2,570,337
	<b>29,367,846</b>	<b>27,466,591</b>
Less:		
Charity care	697,905	280,887
Provision for bad debts	2,374,714	4,028,633
	<b>26,295,227</b>	<b>23,157,071</b>
Net patient service revenue	\$ 26,295,227	\$ 23,157,071

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 North Park Medical Center, a rural health clinic, by Medicare, and are reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. 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 the Medicare administrative contractor. Nonrural health clinic physician services are reimbursed on a fee schedule.
- *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. Through October 31, 2016, most outpatient services were paid on a cost basis. Effective November 1, 2016, Medicaid outpatient services are paid based on prospectively determined rates. 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. Physician services are reimbursed on a fee schedule.
- *Other* – 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, fee schedules, and prospectively determined daily rates.

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2016 and 2015**

**8. Net Patient Service Revenue (continued):**

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 increased by approximately \$7,000 and \$35,000 in the years ended December 31, 2016 and 2015, respectively, due to differences between original estimates and final settlements or revised estimates.

Under the Colorado Health Care Affordability Act (Act), the District pays provider fees to the state of Colorado. The provider fees are based on inpatient days and outpatient charges. The District also receives various supplemental payments from the state of Colorado under this Act.

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 \$467,000 and \$223,000, respectively. The District received no gifts or grants to subsidize the cost of caring for charity care patients in 2016 or 2015.

**9. Electronic Health Records Incentive Payments:**

The District recognized Medicare electronic health records (EHR) incentive payments during the year ended December 31, 2015. 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 May 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 the days reported in the current Medicare cost report. Medicare incentive payments of approximately \$-0- and \$50,000 were recognized as revenue for the years ended December 31, 2016 and 2015, respectively.

**10. Property Taxes:**

The Grand 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 on December 22 of the prior year on property values assessed as of May 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. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the District. The assessed property is subject to lien on the levy date, therefore no allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates.

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2016 and 2015**

**10. Property Taxes (continued):**

For 2016, the District's regular tax levy was \$6.556 per \$1,000 on a total assessed valuation of \$182,509,170, for a total regular levy of \$1,196,531. For 2015, the District's regular tax levy was \$6.556 per \$1,000 on a total assessed valuation of \$194,554,560, for a total regular levy of \$1,275,457.

The District paid \$59,938 and \$63,784 in 2016 and 2015, respectively, to the Grand County Treasurer for assessment and collection of the tax levy.

**11. Deferred Compensation Plan:**

The District sponsors the MPMC 457 Plan (the 457 Plan), a defined contribution pension plan for its full-time employees over age 18. The 457 Plan is administered by the District. Benefit terms, including contribution requirements, for the 457 Plan are established and may be amended by the District. The District is not required to contribute to the 457 Plan. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. Employee contributions to the 457 Plan were approximately \$688,000 and \$643,000 for the years ended December 31, 2016 and 2015, respectively.

The District also sponsors the MPMC 401a Plan (the 401(a) Plan). This defined contribution plan covers all employees. Employees do not contribute to this plan. The District contributes to the 401(a) Plan on a discretionary basis. The District contributions to the 401(a) Plan during the years ended December 31, 2016 and 2015, were approximately \$235,000 and \$228,000, respectively. The 401(a) Plan is administered by the District. Benefit terms, including contribution requirements, for the 401(a) Plan are established and may be amended by the District.

Employees' voluntary contributions and employer contributions are 100% vested. The District had a liability due to the 401(a) Plan in the amounts of approximately \$55,000 and \$228,000 at December 31, 2016 and 2015, respectively.

**12. Contingencies and Commitments:**

**Commitment** – In September 2016, the District has entered into an information services agreement with Centura Health. The estimated future commitment for software upgrades and support ranges from \$314,000 to \$475,000 through 2021.

**Medical malpractice claims** – The District has professional liability insurance coverage with COPIC Insurance Company. The policy provides protection on a "claims-made" basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year, or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has no deductible per claim.

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

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2016 and 2015**

**12. Contingencies and Commitments (continued):**

**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 asserted at this time. Management believes that 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.

**Tax, spending, and debt limitations** – At the November 3, 1992, general election, Colorado voters approved an amendment to the Colorado Constitution, Article X, Section 20, commonly known as the Taxpayer’s Bill of Rights (TABOR). TABOR was effective December 31, 1992, and its provisions limit government taxes, spending revenues and debt without electoral approval.

TABOR, by its terms, applies to local governments such as special districts but excludes “enterprises,” which are defined as (1) a government owned business, (2) authorized to issue its own debt, and (3) receives less than 10% of its annual revenue in grants from all state and local governments. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of TABOR. However, the District has made certain interpretations of TABOR’s language in order to determine its compliance.

**Risk management** – The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; 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 for any of the three preceding years.

**Budget** – The District overspent its approved budgeted expenses by \$673,430 in 2016.

**13. Concentration of Credit Risk:**

**Patient accounts receivable** – The District grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The following is the mix of receivables from patients and third-party payors reported by the District:

	<b>2016</b>	<b>2015</b>
Medicare	11 %	12 %
Medicaid	14	9
Other third-party payors	37	31
Patients	38	48
	<b>100 %</b>	<b>100 %</b>

**Physicians** – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on District operations.

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**14. Blended Component Unit:**

A condensed combining statement of net position as of December 31, 2015, is as follows:

	Kremmling Memorial Hospital District	Middle Park Facilities Corporation	Eliminations	Combined
<i>Assets</i>				
Current assets	\$ 7,476,774	\$ -	\$ -	\$ 7,476,774
Assets limited as to use, cash and cash equivalents	385,395	24,906	-	410,301
Capital assets, net	18,010,175	-	-	18,010,175
Total assets	25,872,344	24,906	-	25,897,250
<i>Deferred outflows of resources, deferred charge on debt refunding</i>				
	711,958	-	-	711,958
<b>Total assets and deferred outflows of resources</b>	<b>\$ 26,584,302</b>	<b>\$ 24,906</b>	<b>\$ -</b>	<b>\$ 26,609,208</b>
<i>Liabilities</i>				
Current liabilities	\$ 4,359,222	\$ -	\$ -	\$ 4,359,222
Noncurrent liabilities, less current maturities	23,860,795	-	-	23,860,795
Total liabilities	28,220,017	-	-	28,220,017
<i>Deferred inflows of resources, property tax levy</i>				
	1,195,365	-	-	1,195,365
Total liabilities and deferred inflows of resources	29,415,382	-	-	29,415,382
<i>Net position</i>				
Net investment in capital assets	(5,648,530)	24,906	-	(5,623,624)
Unrestricted	2,817,450	-	-	2,817,450
Total net position	(2,831,080)	24,906	-	(2,806,174)
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 26,584,302</b>	<b>\$ 24,906</b>	<b>\$ -</b>	<b>\$ 26,609,208</b>

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**14. Blended Component Unit (continued):**

A condensed combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2015, is as follows:

	Kremmling Memorial Hospital District	Middle Park Facilities Corporation	Eliminations	Combined
<i>Operating revenues</i>				
Net patient service revenue, net of provision for bad debts	\$ 23,157,071	\$ -	\$ -	\$ 23,157,071
Grants	89,550	-	-	89,550
Electronic health records incentive payment	50,091	-	-	50,091
Other revenue	127,786	1,704,532	(1,704,532)	127,786
<b>Total operating revenues</b>	<b>23,424,498</b>	<b>1,704,532</b>	<b>(1,704,532)</b>	<b>23,424,498</b>
<i>Operating expenses</i>				
Depreciation and amortization	645,038	902,939	-	1,547,977
Other operating expenses	21,628,845	1,704,532	(1,704,532)	21,628,845
<b>Total operating expenses</b>	<b>22,273,883</b>	<b>2,607,471</b>	<b>(1,704,532)</b>	<b>23,176,822</b>
<b>Operating income (loss)</b>	<b>1,150,615</b>	<b>(902,939)</b>	<b>-</b>	<b>247,676</b>
<i>Nonoperating revenues (expenses)</i>				
Taxation for operations	1,354,521	-	-	1,354,521
Interest income	790	-	-	790
Noncapital grants and contributions	2,817	-	-	2,817
Debt issuance costs	(619,461)	-	-	(619,461)
Interest expense	(103,321)	(1,702,181)	-	(1,805,502)
<b>Total nonoperating revenues (expenses), net</b>	<b>635,346</b>	<b>(1,702,181)</b>	<b>-</b>	<b>(1,066,835)</b>
<i>Transfer of assets</i>	(6,824,709)	6,824,709	-	-
Change in net position before gain on debt forgiveness	(5,038,748)	4,219,589	-	(819,159)
<i>Gain on debt forgiveness</i>	-	2,090,684	-	2,090,684
Change in net position	(5,038,748)	6,310,273	-	1,271,525
Net position, beginning of year	2,207,668	(6,285,367)	-	(4,077,699)
<b>Net position, end of year</b>	<b>\$ (2,831,080)</b>	<b>\$ 24,906</b>	<b>\$ -</b>	<b>\$ (2,806,174)</b>

A condensed combining statement of cash flows for the year ended December 31, 2015, is as follows:

	Kremmling Memorial Hospital District	Middle Park Facilities Corporation	Eliminations	Combined
<i>Net cash provided by (used in):</i>				
Operating activities	\$ 628,900	\$ -	\$ -	\$ 628,900
Noncapital financing activities	1,352,391	-	-	1,352,391
Capital and related financing activities	(1,804,339)	-	-	(1,804,339)
Investing activities	790	-	-	790
Net increase in cash and cash equivalents	177,742	-	-	177,742
Cash and cash equivalents, beginning of year	1,606,121	-	-	1,606,121
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,783,863</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,783,863</b>

**SUPPLEMENTARY INFORMATION**

**Kremmling Memorial Hospital District**  
**Schedule of Budget and Actual Revenues and Expenses**  
**Year Ended December 31, 2016**

	<b>2016</b>	<b>Preliminary and Final Approved Budget</b>	<b>Favorable (Unfavorable) Variance</b>
<i>Operating revenues</i>			
Net patient service revenue, net of provision for bad debts	\$ 26,295,227	\$ 24,546,000	\$ 1,749,227
Grants	161,393	250,000	(88,607)
Other	326,075	150,000	176,075
<b>Total operating revenues</b>	<b>26,782,695</b>	<b>24,946,000</b>	<b>1,836,695</b>
<i>Operating expenses</i>			
Salaries and wages	12,746,645	11,163,000	(1,583,645)
Employee benefits	3,075,724	3,959,500	883,776
Professional fees and other purchased services	4,341,137	4,535,000	193,863
Supplies	1,839,759	1,425,000	(414,759)
Depreciation and amortization	1,395,897	1,590,000	194,103
Insurance	215,173	100,000	(115,173)
Utilities	371,098	400,000	28,902
Repairs and maintenance	165,691	125,000	(40,691)
Leases and rentals	235,986	235,000	(986)
Provider fees	354,105	-	(354,105)
Other	464,715	1,000,000	535,285
<b>Total operating expenses</b>	<b>25,205,930</b>	<b>24,532,500</b>	<b>(673,430)</b>
<i>Operating income</i>	<b>1,576,765</b>	<b>413,500</b>	<b>1,163,265</b>
<i>Nonoperating revenues (expenses)</i>			
Taxation for operations	1,269,773	1,325,000	(55,227)
Interest income	8,959	-	8,959
Grants and contributions	6,044	-	6,044
Interest expense	(864,602)	(875,000)	10,398
<b>Total nonoperating revenues (expenses), net</b>	<b>420,174</b>	<b>450,000</b>	<b>(29,826)</b>
<b>Change in net position</b>	<b>\$ 1,996,939</b>	<b>\$ 863,500</b>	<b>\$ 1,133,439</b>

*See accompanying independent auditors' report.*