

**MONTEZUMA COUNTY HOSPITAL DISTRICT**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2016**



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## **FINANCIAL SECTION**



## JOHN CUTLER & ASSOCIATES

Board of Directors  
Montezuma County Hospital District  
Cortez, Colorado

### INDEPENDENT AUDITORS' REPORT

#### Report on the Financial Statements

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

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### Opinions

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

## Other Matters

### *Required Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 20 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.

*John Luther & Associates, LLC*

August 17, 2017

## **BASIC FINANCIAL STATEMENTS**

MONTEZUMA COUNTY HOSPITAL DISTRICT

STATEMENT OF NET POSITION

As of December 31, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and Investments	\$ 2,321,801	\$ 2,126,927
Restricted Cash and Investments	-	1,553,934
Accounts Receivable	229,021	22,269
Escrow Deposit	800,000	-
Property Taxes Receivable	641,125	631,407
Capital Assets, not depreciated	4,352,511	1,218,899
Capital Assets, depreciated	<u>14,406,236</u>	<u>15,595,116</u>
TOTAL ASSETS	<u>22,750,694</u>	<u>21,148,552</u>
<b>LIABILITIES</b>		
Accounts Payable	79,571	9,459
Accrued Expenses	8,500	285,060
Noncurrent Liabilities		
Due in One Year	-	210,000
Due in More Than One Year	<u>-</u>	<u>8,915,000</u>
TOTAL LIABILITIES	<u>88,071</u>	<u>9,419,519</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Property Tax Revenue	<u>641,125</u>	<u>631,407</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	18,758,747	7,689,015
Restricted for Emergencies	-	22,000
Restricted per Bond Covenants	-	1,553,622
Unrestricted	<u>3,262,751</u>	<u>1,832,989</u>
TOTAL NET POSITION	<u>\$ 22,021,498</u>	<u>\$ 11,097,626</u>

The accompanying notes are an integral part of the financial statements.

MONTEZUMA COUNTY HOSPITAL DISTRICT

STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
	Expenses	Charges for Services	Capital Grants and Contributions	GOVERNMENTAL ACTIVITIES	
				2016	2015
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental Activities</b>					
General Government	\$ 1,190,565	\$ 726,483	\$ 168,289	\$ (295,793)	\$ (169,569)
Interest and Fiscal Charges	975,452	-	-	(975,452)	(549,532)
Total Governmental Activities	<u>\$ 2,166,017</u>	<u>\$ 726,483</u>	<u>\$ 168,289</u>	<u>(1,271,245)</u>	<u>(719,101)</u>
GENERAL REVENUES					
Property Taxes				682,710	625,904
Specific Ownership Tax				50,676	51,841
Hospital Expansion Tax				1,235,498	-
Interest				15,864	18,586
Other				20,021	17,308
Loss on Sale of Assets				(273,665)	-
SPECIAL ITEM					
Capital Contribution				10,464,013	-
TOTAL GENERAL REVENUES				<u>12,195,117</u>	<u>713,639</u>
CHANGE IN NET POSITION				10,923,872	(5,462)
NET POSITION, Beginning				<u>11,097,626</u>	<u>11,103,088</u>
NET POSITION, Ending				<u>\$ 22,021,498</u>	<u>\$ 11,097,626</u>

The accompanying notes are an integral part of the financial statements.

MONTEZUMA COUNTY HOSPITAL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2016

	<u>GENERAL FUND</u>	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and Investments	\$ 2,321,801	\$ 2,126,927
Restricted Cash and Investments	-	1,553,934
Accounts Receivable	229,021	22,269
Escrow Deposit	800,000	-
Property Taxes Receivable	641,125	631,407
<b>TOTAL ASSETS</b>	<u><u>\$ 3,991,947</u></u>	<u><u>\$ 4,334,537</u></u>
<b>LIABILITIES, DEFERRED INFLOWS, AND FUND EQUITY</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 79,571	\$ 9,459
Accrued Expenses	8,500	285,060
<b>TOTAL LIABILITIES</b>	<u>88,071</u>	<u>294,519</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Property Tax Revenue	<u>641,125</u>	<u>631,407</u>
<b>FUND EQUITY</b>		
Fund Balance		
Nonspendable	800,000	-
Restricted for Debt Service	-	1,553,934
Restricted for Emergencies	51,000	22,000
Committed for Capital Project	-	1,500,000
Unassigned	2,411,751	332,677
<b>TOTAL FUND EQUITY</b>	<u>3,262,751</u>	<u>3,408,611</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND EQUITY</b>	<u><u>\$ 3,991,947</u></u>	<u><u>\$ 4,334,537</u></u>
Amounts reported for governmental activities in the statement of net position are different because:		
Fund Balance	\$ 3,262,751	\$ 3,408,611
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	18,758,747	16,814,015
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	<u>-</u>	<u>(9,125,000)</u>
Net position of governmental activities	<u><u>\$ 22,021,498</u></u>	<u><u>\$ 11,097,626</u></u>

The accompanying notes are an integral part of the financial statements.

MONTEZUMA COUNTY HOSPITAL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended December 31, 2016

	GENERAL FUND	
	2016	2015
REVENUES		
Property Taxes	\$ 682,710	\$ 625,904
Specific Ownership Taxes	50,676	51,841
Hospital Expansion Tax	1,235,498	-
Intergovernmental	168,289	50,409
Investment Income	15,864	18,586
Lease Revenue	726,483	791,091
Other	64,284	17,308
TOTAL REVENUES	<u>2,943,804</u>	<u>1,555,139</u>
EXPENDITURES		
Current		
General Government		
Insurance	279	3,316
Legal and Professional Fees	126,352	78,639
Other Expenses	10,542	6,871
Contributions	168,767	-
County Treasurer Fees	13,673	12,537
Debt Service		
Principal	210,000	200,000
Interest	507,485	549,532
Capital Outlay	3,133,612	692,805
TOTAL EXPENDITURES	<u>4,170,710</u>	<u>1,543,700</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,226,906)</u>	<u>(73,805)</u>
OTHER FINANCING SOURCES (USES)		
Capital Contributions	10,464,013	-
Payments to Escrow Agent	(9,382,967)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,081,046</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(145,860)	11,439
FUND BALANCE, Beginning	<u>3,408,611</u>	<u>3,397,172</u>
FUND BALANCE, Ending	<u>\$ 3,262,751</u>	<u>\$ 3,408,611</u>

The accompanying notes are an integral part of the financial statements.

MONTEZUMA COUNTY HOSPITAL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended December 31, 2016

Amounts Reported for Governmental Activities in the Statement of Activities  
are Different Because:

Net Changes in Fund Balances - Total Governmental Funds \$ (145,860)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$3,133,612 exceeded depreciation expense (\$870,952) and loss on disposal of assets (\$317,928) for the current period. 1,944,732

Repayment of long-term debt and related costs are reported as an expenditure in the governmental funds and decrease fund balance. For the District as a whole, however, these costs and payments reduce the liabilities or are capitalized in the statement of net position and do not result in an expense in the statement of activities. This is the amount of debt service principal payments for the current period. 9,125,000

Change in Net Position of Governmental Activities \$ 10,923,872

The accompanying notes are an integral part of the financial statements.

# MONTEZUMA COUNTY HOSPITAL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

### NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Montezuma County Hospital District (the “District”) was created April 28, 1975, in accordance with Chapter 32, Article 4 of the Colorado Revised Statutes, 1973, as applicable to special districts. The District is a political subdivision of the State of Colorado and is governed by a Board of Directors elected by the residents of Montezuma County (the “County”). The District operated Southwest Memorial Hospital (the “Hospital”), a sixty-one-bed acute care facility in Cortez, Colorado until September 14, 1996. On that date, the District, under a signed lease agreement, transferred the operations and certain net assets of the District to Southwest Health Systems, Inc. (SHS), a non-profit organization exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code, incorporated March 8, 1996, for the purpose of operating the Hospital. The District continues to serve the people of the County through health care related projects.

The accounting policies of the Montezuma County Hospital District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

#### **Reporting Entity**

In accordance with governmental accounting standards, the Montezuma County Hospital District has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it.

The Health Facilities Enterprise was enacted to serve as a financing entity for the District, and is governed by a board comprised of The District’s elected board. The Enterprise’s bonds are approved by The District’s board. The activities of the Enterprise are reported in the General Fund of the District.

#### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Government-Wide and Fund Financial Statements** (Continued)

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, specific ownership taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**  
(Continued)

In the fund financial statements, the District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District.

**Investments**

Investments are recorded at fair value.

**Capital Assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property and equipment of the District is depreciated using the straight line method over the estimated useful lives between fifteen and forty years.

**Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type statement of net position.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Net Position**

The government-wide financial statements, utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

*Net Investment in Capital Assets* includes the District's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted Net Position* includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

*Unrestricted Net Position* typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

**Fund Balance**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The District reports deposits as nonspendable at December 31, 2016.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Fund Balance** (Continued)

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. At December 31, 2016, the District does not report any committed fund balances.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, *deferred inflow of resources*, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Property Taxes**

Property taxes are levied on November 1 and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's office collects property taxes and remits to the District on a monthly basis.

Since property tax revenues are collected in arrears during the succeeding year, a receivable and corresponding deferred revenue are recorded at December 31. As the tax is collected in the succeeding year, the deferred revenue is recognized as revenue and the receivable is reduced.

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- In September, District Management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- Budgets are legally adopted for all funds of the District on a basis consistent with generally accepted accounting principles (GAAP).
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board of Directors. All appropriations lapse at year end.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 3: CASH AND INVESTMENTS**

A summary of deposits and investments as of December 31, 2016 follows:

Deposits	\$ 2,262,584
Investments	<u>59,217</u>
Total	<u>\$ 2,321,801</u>

**Deposits**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government'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. At December 31, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. 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.

The Authority has no policy regarding custodial credit risk for deposits.

At December 31, 2016, the District had deposits with financial institutions with a carrying amount of \$2,262,584. The bank balances with the financial institutions were \$2,454,351. Of these balances, \$875,000 was covered by federal depository insurance and \$1,579,351 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 3: CASH AND INVESTMENTS** (Continued)

**Investments**

Interest Rate Risk

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

Colorado statutes specify in which instruments the units of local government may invest which includes:

- Obligations of the United States and certain U.S. government agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

The above investments are authorized for all funds and fund types used by Colorado municipalities.

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

At December 31, 2016, the District held investments in U.S. Government Agency Bonds in the amount of \$59,217 with maturity dates of less than one and four years. Given the low risk of this type of investment, the District has not established a policy limiting the amount of investments in this type of security and deems it unnecessary at this time. These investments are valued with Level 1 inputs.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 4: CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2016, is summarized below:

	<u>Balances</u> <u>12/31/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>12/31/16</u>
<b>Governmental Activities</b>				
Capital Assets, not depreciated				
Land	\$ 590,128	\$ -	\$ -	\$ 590,128
Construction in progress	<u>628,771</u>	<u>3,133,612</u>	<u>-</u>	<u>3,762,383</u>
Total Capital Assets, not Depreciated	<u>1,218,899</u>	<u>3,133,612</u>	<u>-</u>	<u>4,352,511</u>
Capital Assets, depreciated				
Buildings	18,177,500	-	-	18,177,500
Infrastructure	3,272,142	-	317,928	2,954,214
Equipment	<u>14,552,659</u>	<u>-</u>	<u>-</u>	<u>14,552,659</u>
Total Capital Assets, depreciated	<u>36,002,301</u>	<u>-</u>	<u>317,928</u>	<u>35,684,373</u>
Less Accumulated Depreciation				
Buildings	8,784,754	466,288	-	9,251,042
Infrastructure	495,552	81,410	-	576,962
Equipment	<u>11,126,879</u>	<u>323,254</u>	<u>-</u>	<u>11,450,133</u>
Total Accumulated Depreciation	<u>20,407,185</u>	<u>870,952</u>	<u>-</u>	<u>21,278,137</u>
Total Capital Assets, depreciated, net	<u>15,595,116</u>	<u>(870,952)</u>	<u>317,928</u>	<u>14,406,236</u>
Governmental Activities, Capital Assets, Net	<u>\$ 16,814,015</u>	<u>\$ 2,262,660</u>	<u>\$ 317,928</u>	<u>\$ 18,758,747</u>

Depreciation expense was charged to the General Government activity.

During 2016, the District began the processes of planning, designing, and constructing a new inpatient wing, medical building, and EMS building to the existing hospital. The project is to be completed with assistance provided by Southwest Health Systems, Inc. ("SHS"), the District's hospital operator. For the year ended December 31, 2016, SHS contributed \$1,835,362 in constructed assets to the District. This amount is reported as a special item on the District's statement of activities.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 5: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2016.

	Balance <u>12/31/15</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>12/31/16</u>	Due In <u>One Year</u>
2007 Revenue Bond	<u>\$ 9,125,000</u>	<u>\$ -</u>	<u>\$ 9,125,000</u>	<u>\$ -</u>	<u>\$ -</u>

**Revenue Refunding Bonds - Series 2007**

On September 28, 2007, the District issued the Series 2007 Revenue Refunding Bonds in the amount of \$10,455,000 to fully refund the Series 2005A and 2005B Revenue Bonds. Principal payments are due annually on September 1 and interest payments are due semi-annually on September 1 and March 1, through September 1, 2037. Interest accrues at 5.9%. During the year ended December 31, 2016, the District received a capital contribution in the amount of \$8,628,651 from Southwest Health Systems, Inc (“SHS”), the District’s hospital operator to pay off the District’s bond debt. This amount is reported as a special items on the District’s statement of activities.

**Defeased Debt**

During the fiscal year ended December 31, 2016, the District received funding from SHS to advance refund the District’s 2007 bonds. Under the terms of SHS’s loan agreement described in Footnote 8, \$9,382,967 of the loan proceeds were deposited into Escrow to refund the District’s bonds. The bonds are callable in October 2017 and will be paid out of escrow funds at that time.

**NOTE 6: LEASE AGREEMENTS**

Southwest Health Systems, Inc. (“SHS”)

As part of the September 14, 1996, lease agreement, the District entered into an operating lease arrangement whereby it leases substantially all of the District’s capital assets to the SHS. The lease expires on September 30, 2046, and is cancelable by default or by mutual agreement of the parties. The scheduled lease payments were intended to approximate the required payments on the District’s outstanding long-term revenue bonds. The lease agreement was amended in 1999 and increased the lease payments beginning in 2000 for certain improvements. Upon termination of the lease for any reason, the SHS will be required to transfer all leased assets back to the District.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 6: LEASE AGREEMENTS** (Continued)

Southwest Health Systems, Inc. ("SHS") (Continued)

On April 9, 2003, the lease agreement was amended in anticipation of the District financing an expansion of the Hospital. In the amended agreement, SHS agreed to pay to the District sufficient funds to retire the existing revenue bonds. SHS also agreed to pay lease payments for the purpose of timely satisfying the new debt incurred by the District, which is required to fund the expansion.

In April 2005, the District obtained permanent financing and SHS began making monthly payments in the amount of \$68,597. SHS annually remits to the District an additional \$10,000 as an operating lease payment.

In November 2016, in conjunction with SHS's financing of the hospital expansion project, the lease amendment was amended to extend the term of the agreement to September 30, 2051. In addition, the amended agreement authorizes SHS to enter into a loan agreement to finance the hospital expansion project and no additional lease payments are due to the District.

Mancos Clinic

In May 2012 the District entered into a lease agreement to lease a portion of the Mancos clinic to Southwest Memorial Hospital. The lease requires monthly payments of \$1,800 through May 2015. The lease agreement also includes a risk sharing clause, where the District agrees to pay Southwest Memorial Hospital a maximum of \$150,000 to cover operating losses during the first year of the lease and up to \$75,000 during the second year of the lease. For the year ended December 31, 2015, the District did not make any payments to Southwest Memorial Hospital under the terms of this agreement.

In October 2015, the lease agreement was extended through August 1, 2018. The amended lease requires monthly lease payments of \$1,800 and the risk sharing clause was eliminated.

**NOTE 7: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District participates in the Colorado Special District Property and Liability Insurance Pool to manage these risks of loss. The Pool insures property, liability, workers' compensation and associated exposures through contributions made by member districts. The District does not maintain an equity interest in the insurance pool. The District funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund. Claims have not exceeded insurance coverage in the last three years.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The District receives funding from the state government for various projects. These funds are subject to review and audit by the state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. District management believes that such amounts, if any, will be immaterial.

**Tabor Amendment**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. In January 2016, after review of the November 2013 election results by the Colorado Department of Local Affairs, the District has received approval to be exempt from the requirements of the Tabor Amendment beginning on January 1, 2016. As required by the Amendment, the District has established a reserve for emergencies. At December 31, 2016, the reserve of \$51,000 was recorded as a reservation of fund balance in the General Fund.

**Hospital Expansion Project**

During the year ended December 31, 2016, the District entered into various agreements and modified existing agreements with the District's hospital operator, SHS. Below is a summary of the most significant agreements:

SHS Loan Agreement

In November 2016, SHS entered into a loan agreement in the amount of \$40,000,000. The loan is funded by Montezuma County \$39,558,000 Series 2016A and \$442,000 2016B Revenue bonds. Proceeds will be used to provide funding for the hospital expansion. In addition, a portion of the proceeds are used to pay off the District's existing bond debt.

The bonds carry interest rates ranging from 4.72% to 5.9%. Debt service payments are payable by SHS through December 2046 for the Series 2016A bonds and through June 2017 for the Series 2016B bonds. The bonds and were purchased by a syndicate of six commercial banks to provide the funding to SHS.

Project Funding Agreement

On November 1, 2016, the District entered into a project funding agreement with SHS. Under the terms of the agreement, SHS agrees to finance, undertake, and complete the hospital expansion project. Funding for the project was obtained through the SHS loan agreement in the amount of \$40,000,000, including a \$2,000,000 grant from the Colorado Department of Local Affairs (DOLA).

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2016

**NOTE 8: COMMITMENTS AND CONTINGENCIES** (Continued)

Project Funding Agreement (Continued)

All improvements constructed under the agreement will at all times be owned by the District and are subject to the existing lease agreement between the two parties. In addition, the District has agreed to reimburse SHS for actual project costs in annual installments in the amount of the greater of \$1,400,000 or the amount of annual sales and use tax collected by the District beginning in 2017 through 2030. The sales tax collected by the District was approved by voters in November 2015 election specifically to fund the District's hospital expansion project. Any sales tax collected in excess of the \$1,400,000 maximum may be retained by the District.

In conjunction with these agreements, the District also adopted a resolution to provide \$800,000 in reserve funds to satisfy SHS's loan reserve requirements. SHS has agreed that these funds are not to be used to satisfy current debt service requirements. The reserve funds are to be paid back to the District once SHS's loan has been paid in full. The amount is reported as a deposit on the District's balance sheet.

**REQUIRED SUPPLEMENTAL INFORMATION**

MONTEZUMA COUNTY HOSPITAL DISTRICT

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended December 31, 2016

	2016			VARIANCE	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Local Sources					
Property Taxes	\$ 631,407	\$ 680,000	\$ 682,710	\$ 2,710	\$ 625,904
Specific Ownership Taxes	35,000	50,000	50,676	676	51,841
Hospital Expansion Tax	1,125,650	1,235,000	1,235,498	498	-
Intergovernmental	200,000	149,591	168,289	18,698	50,409
Investment Income	10,000	21,000	15,864	(5,136)	18,586
Lease Revenue	791,000	725,000	726,483	1,483	791,091
Other	50,000	65,050	64,284	(766)	17,308
TOTAL REVENUES	<u>2,843,057</u>	<u>2,925,641</u>	<u>2,943,804</u>	<u>18,163</u>	<u>1,555,139</u>
EXPENDITURES					
Current					
General Government					
Insurance	5,000	3,450	279	3,171	3,316
Legal and Professional Fees	69,500	136,500	126,352	10,148	78,639
Other Expenses	20,100	11,725	10,542	1,183	6,871
Contributions	-	175,000	168,767	6,233	-
County Treasurer Fees	13,000	13,500	13,673	(173)	12,537
Debt Service					
Principal	200,000	230,000	210,000	20,000	200,000
Interest	911,000	525,000	507,485	17,515	549,532
Capital Outlay	2,900,000	3,175,000	3,133,612	41,388	692,805
TOTAL EXPENDITURES	<u>4,118,600</u>	<u>4,270,175</u>	<u>4,170,710</u>	<u>99,465</u>	<u>1,543,700</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,275,543)</u>	<u>(1,344,534)</u>	<u>(1,226,906)</u>	<u>117,628</u>	<u>11,439</u>
OTHER FINANCING SOURCES (USES)					
Capital Contributions	-	10,430,000	10,464,013	34,013	-
Payments to Escrow Agent	-	(9,370,000)	(9,382,967)	(12,967)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>1,060,000</u>	<u>1,081,046</u>	<u>21,046</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>(1,275,543)</u>	<u>(284,534)</u>	<u>(145,860)</u>	<u>138,674</u>	<u>11,439</u>
FUND BALANCE, Beginning	<u>3,474,215</u>	<u>3,400,000</u>	<u>3,408,611</u>	<u>8,611</u>	<u>3,397,172</u>
FUND BALANCE, Ending	<u>\$ 2,198,672</u>	<u>\$ 3,115,466</u>	<u>\$ 3,262,751</u>	<u>\$ 147,285</u>	<u>\$ 3,408,611</u>

See the accompanying independent auditors' report.