

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Park Hospital District
dba: Estes Park Medical Center
Estes Park, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Park Hospital District dba: Estes Park Medical Center (the Medical Center), which comprise the statement of net position as of December 31, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows, and the statements of financial position and related statements of activities of its discretely presented component unit Estes Park Medical Center Foundation, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 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 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 auditor considers internal control relevant to the Medical Center'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 Medical Center'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.

Board of Directors
Park Hospital District
dba: Estes Park Medical Center

Opinion

In our opinion, the 2016 financial statements referred to above present fairly, in all material respects, the financial position of Park Hospital District dba: Estes Park Medical Center and of its discretely presented component unit Estes Park Medical Center Foundation as of December 31, 2016, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The 2015 financial statements Park Hospital District dba: Estes Park Medical Center and of its discretely presented component unit Estes Park Medical Center Foundation were audited by other auditors whose report dated April 22, 2016, expressed an unmodified opinion on those statements.

Required Supplementary Information

Management has omitted the management’s discussion and analysis that the accounting principles generally accepted in the United States of America requires 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 the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2017, on our consideration of the Medical Center’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Broomfield, Colorado
June 20, 2017

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015**

ASSETS	2016	2015
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 11,723,993	\$ 9,637,216
Restricted Cash Under Debt Agreement	1,393,507	1,226,240
Receivables:		
Patient and Resident, Net of Estimated Uncollectibles of Approximately \$1,737,000 in 2016 and \$1,063,000 in 2015	5,508,038	6,869,484
Property Taxes and Other	2,685,072	2,660,451
Supplies	1,023,456	955,680
Prepaid Expenses	319,155	280,941
Total Current Assets	22,653,221	21,630,012
NONCURRENT CASH AND INVESTMENTS		
Long-Term Investments	10,185,503	3,595,814
Internally Designated	28,468	4,096,911
Restricted by Donors	5,720	5,717
Total Noncurrent Cash and Investments	10,219,691	7,698,442
CAPITAL ASSETS		
Capital Assets Not Being Depreciated	714,635	569,277
Depreciable Capital Assets, Net of Accumulated Depreciation	29,924,738	30,789,148
Total Capital Assets, Net	30,639,373	31,358,425
OTHER ASSETS		
Physician Notes Receivable	44,239	74,763
Goodwill	-	17,250
Deposits	325,000	-
Total Other Assets	369,239	92,013
Total Assets	\$ 63,881,524	\$ 60,778,892

See accompanying Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 1,263,582	\$ 1,122,931
Accounts Payable	913,586	540,193
Estimated Third-Party Payor Settlements	2,328,000	1,128,492
Accrued Expenses:		
Salaries, Wages, and Related Liabilities	1,323,073	1,122,108
Compensated Absences	852,711	859,912
Interest	220,321	406,238
Other	497,243	440,514
Total Current Liabilities	<u>7,398,516</u>	<u>5,620,388</u>
 LONG-TERM DEBT, LESS CURRENT MATURITIES	 <u>16,619,920</u>	 <u>17,897,622</u>
Total Liabilities	<u>24,018,436</u>	<u>23,518,010</u>
 DEFERRED INFLOWS OF RESOURCES - PROPERTY TAXES	 2,551,664	 2,537,888
 NET POSITION		
Net Investment in Capital Assets	12,755,871	12,337,872
Restricted, Expendable	1,399,227	1,231,957
Unrestricted	23,156,326	21,153,165
Total Net Position	<u>37,311,424</u>	<u>34,722,994</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 63,881,524</u>	 <u>\$ 60,778,892</u>

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
ESTES PARK MEDICAL CENTER FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 403,531	\$ 346,393
Promises to Give, Short-Term	51,802	4,511
Other Receivables	12,282	16,956
Prepaid Expenses	1,272	1,817
Total Current Assets	468,887	369,677
OTHER ASSETS		
Investments	2,504,445	2,845,170
Net Promises to Give, Long-Term	108,525	4,514
Total Other Assets	2,612,970	2,849,684
Total Assets	\$ 3,081,857	\$ 3,219,361
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 886	\$ 377
Accrued Expenses	28,383	7,539
Total Current Liabilities	29,269	7,916
NET ASSETS		
Unrestricted	518,777	904,629
Temporarily Restricted	670,780	447,885
Permanently Restricted	1,863,031	1,858,931
Total Net Assets	3,052,588	3,211,445
Total Liabilities and Net Assets	\$ 3,081,857	\$ 3,219,361

See accompanying Notes to Financial Statements.

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
OPERATING REVENUE		
Net Patient and Resident Service Revenue, Net of Provision for Bad Debts of approximately \$6,370,000 in 2016 and \$5,353,000 in 2015	\$ 39,998,804	\$ 42,745,588
Other Revenue	1,010,211	971,069
Total Operating Revenue	41,009,015	43,716,657
OPERATING EXPENSES		
Salaries and Wages	18,883,584	18,587,066
Employee Benefits	4,787,483	4,988,304
Professional Fees and Purchased Services	7,158,985	6,641,448
Supplies	4,238,859	4,338,565
Utilities	468,752	472,017
Leases and Rentals	185,114	187,536
Insurance	242,433	238,677
Repairs and Maintenance	175,137	186,551
Depreciation	2,478,680	2,647,516
Other	2,264,045	1,980,946
Total Operating Expenses	40,883,072	40,268,626
OPERATING INCOME	125,943	3,448,031
NONOPERATING REVENUES (EXPENSES)		
Property Tax Revenues	2,680,268	2,450,474
Interest Expense	(691,627)	(844,822)
Investment Income	119,553	41,472
Gain (Loss) on Disposal of Capital Assets	(16,850)	365
Noncapital Grants and Contributions	1,002	58,410
Other	(1,529)	(8,337)
Total Nonoperating Revenues, Net	2,090,817	1,697,562
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS	2,216,760	5,145,593
Capital Contributions	371,670	125,531
INCREASE IN NET POSITION	2,588,430	5,271,124
Net Position - Beginning of Year	34,722,994	29,451,870
NET POSITION - END OF YEAR	\$ 37,311,424	\$ 34,722,994

See accompanying Notes to Financial Statements.

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
ESTES PARK MEDICAL CENTER FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Contributions	\$ 66,279	\$ 120,767
Special Events	-	6,804
Investment Income, Net	19,539	3,973
Net Assets Released from Restriction	246,996	149,510
Total Revenues, Gains, and Other Support	332,814	281,054
EXPENSES		
Grants and Contributions to Estes Park Medical Center:		
Capital Assets	55,467	140,873
Wellness Center Project	325,000	-
Salaries and Benefits	185,475	156,934
Advertising and Marketing	43,739	15,463
Office Expenses	30,737	24,314
Professional Fees	14,084	12,609
Contracted Services	45,295	6,051
Insurance	2,438	2,864
Travel and Meetings	16,431	822
Total Expenses	718,666	359,930
DECREASE IN UNRESTRICTED NET ASSETS	(385,852)	(78,876)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	428,751	248,672
Restricted Investment Income	41,140	8,637
Net Assets Released from Restriction	(246,996)	(149,510)
Increase in Temporarily Restricted Net Assets	222,895	107,799
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	4,100	3,050
CHANGE IN NET ASSETS	(158,857)	31,973
Net Assets - Beginning of Year	3,211,445	3,179,472
NET ASSETS - END OF YEAR	\$ 3,052,588	\$ 3,211,445

See accompanying Notes to Financial Statements.

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on Behalf of Patients and Residents	\$ 42,559,758	\$ 40,435,984
Payments to Suppliers and Contractors	(14,831,663)	(13,981,797)
Payments for Employee Salaries and Benefits	(23,420,574)	(23,640,558)
Other Receipts and Payments	1,027,115	895,400
Net Cash Provided by Operating Activities	5,334,636	3,709,029
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes Supporting Operations	2,683,043	2,450,474
Noncapital Grants and Contributions	1,002	58,410
Net Cash Provided by Noncapital Financing Activities	2,684,045	2,508,884
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase and Construction of Capital Assets	(1,718,487)	(888,060)
Principal Payments on Long-Term Debt	(1,122,931)	(1,084,151)
Interest Paid on Long-Term Debt	(891,664)	(861,563)
Capital Contributions	371,670	125,531
Proceeds from the Sale of Capital Assets	-	365
Net Cash Used by Capital and Related Financing Activities	(3,361,412)	(2,707,878)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments, Net	(6,589,689)	(617,864)
Investment Income and Other	118,024	33,135
Net Cash Used by Investing Activities	(6,471,665)	(584,729)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,814,396)	2,925,306
Cash and Cash Equivalents - Beginning of Year	14,966,084	12,040,778
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 13,151,688	\$ 14,966,084

See accompanying Notes to Financial Statements.

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and Cash Equivalents	\$ 11,723,993	\$ 9,637,216
Restricted Cash Under Debt Agreement	1,393,507	1,226,240
Internally Designated	28,468	4,096,911
Restricted by Donors	5,720	5,717
Total Cash and Cash Equivalents	\$ 13,151,688	\$ 14,966,084
	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 125,943	\$ 3,448,031
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities		
Depreciation	2,478,680	2,647,516
Provision for Bad Debts	6,369,730	5,352,518
Changes in Operating Assets and Liabilities:		
Patient and Resident Receivables	(5,008,284)	(8,440,769)
Other Receivables	16,904	(135,066)
Supplies	(67,776)	(86,962)
Prepaid Expenses	(38,214)	41,325
Deposits	(325,000)	-
Accounts Payable	332,652	189,781
Estimated Third-Party Payor Settlements	1,199,508	632,147
Accrued Salaries, Compensated Absences, and Other	250,493	60,508
Net Cash Provided by Operating Activities	\$ 5,334,636	\$ 3,709,029
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Property and Equipment Included in Accounts Payable	\$ 40,741	\$ -
NONCASH FINANCING ACTIVITIES		
Issuance of Series 2016 Promissory Notes to Refinance Series 2006 Limited Tax-Revenue Bonds	\$ 17,625,000	\$ -

See accompanying Notes to Financial Statements.

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
ESTES PARK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization and Reporting Entities

The financial statements of Park Hospital District dba: Estes Park Medical Center (the Medical Center) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Medical Center are described below.

The Medical Center operates a 16-bed acute care facility (Hospital); the Estes Park Retirement Center (Retirement Center); the Prospect Park Nursing Facility (Nursing Facility), a 60-bed skilled nursing facility; and the Family Medical Center (Clinic) located in Estes Park, Colorado. The Medical Center is organized as a political subdivision of the State of Colorado and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(a). The Medical Center is governed by a board of directors consisting of five members elected by residents of Park Hospital District. The Medical Center is not a component unit of another governmental entity.

For financial reporting purposes, the Medical Center is reported separately from the Estes Park Medical Center Foundation (the Foundation). The Foundation is a 501(c)(3) organization whose sole purpose is to support the Medical Center and is reported as a discretely presented component unit of the Medical Center. Estes Park Medical Center Foundation conducts fundraising campaigns on behalf of the Medical Center. The Foundation's individual financial statements can be obtained from management of the Foundation.

Standards of Accounting and Financial Reporting

The accompanying financial statements have been presented in conformity with generally accepted accounting principles in accordance with the American Institute of Certified Public Accountants' audit and accounting guide, health care entities, and other pronouncements applicable to health care organizations and guidance from the GASB, where applicable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
ESTES PARK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

The net position of the Medical Center is classified in three components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by any outstanding balances of borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center. Restricted net assets are reduced by any liabilities payable from restricted assets. *Unrestricted net position* is the remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Cash and Cash Equivalents

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

Patient and Resident Accounts Receivable, Net

The Medical Center reports patient and resident accounts receivable for services rendered at net realizable amounts from third-party payors, patients, residents and others. The Medical Center provides an allowance for bad debts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient and residents, the Medical Center bills third-party payors directly and bills the patient or resident when the patient or resident's liability is determined. Patient and residents are not required to provide collateral for services rendered. Patient and resident accounts receivable are ordinarily due in full when billed. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the patient, resident or third-party payor. In addition, an allowance is estimated for other accounts based on historical experience of the Medical Center. At December 31, 2016 and 2015, the allowance for uncollectible accounts was approximately \$1,737,000 and \$1,063,000, respectively.

Property Tax Receivable and Revenue

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

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

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
ESTES PARK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out basis, or market.

Deposits

Deposits include assets set aside under a lease agreement for land to build a wellness center on.

Noncurrent Cash and Investments

Noncurrent cash and investments includes long-term investments, internally designated investments which are set asides by the board of directors for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes, and cash and investments restricted by donors. Investments are measured at fair value.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Capital Assets, Net

Capital asset acquisitions in excess of \$2,500 are capitalized at cost at the date of acquisition or fair value at the date of donation, if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center:

Land Improvements	8 - 40 Years
Buildings and Leasehold Improvements	5 - 40 Years
Equipment	2 - 25 Years

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

Compensated Absences

The Medical Center's policies permit most employees to accumulate paid time-off benefits. Expense and the related liability are recognized as benefits when earned. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net position date.

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
ESTES PARK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimated Health Claims Payable

The Medical Center provides for self-funded insurance reserves for estimated incurred but not reported claims for its employee health plan. These reserves, which are included in salaries, wages, and related liabilities on the statements of net position, are estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

Deferred Inflows of Resources

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of unavailable property taxes. The property taxes will be recognized as revenue in the year for which the taxes have been levied and become available.

Net Patient and Resident Service Revenue

Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient and resident service revenue. Charges excluded from revenue under the Medical Center's charity care policy were approximately \$382,000 and \$167,000 for 2016 and 2015, respectively.

Grants and Contributions

From time to time, the Medical Center receives grants and 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 that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of expenses before capital contributions.

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
ESTES PARK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses

The Medical Center's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Nonexchange revenues, including taxes, interest expense, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

Income Taxes

The Medical Center is organized as a political subdivision of the State of Colorado and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(a). The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision for state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Advertising Costs

The Medical Center expenses advertising costs as incurred.

Electronic Health Record Incentive Program

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible health care organizations that demonstrate meaningful use of certified EHR technology. The Medicare incentive payments for Critical Access Hospitals are made based on actual costs incurred to attain meaningful use and are contingent on the Medical Center continuing to meet the escalating meaningful use criteria. For the first payment year, the Medical Center must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent year, the Medical Center must demonstrate meaningful use for the entire year. The Medicare incentive payments to Critical Access Hospitals are made in one lump sum.

In 2016 and 2015, the Medical Center recognized approximately \$65,000 and \$146,500, respectively, which is included in other operating revenue on the statements of revenues, expenses, and changes in net position. The final amount of the incentive payment was determined based on information from the Medical Center's Medicare cost report for the years ended December 31, 2016 and 2015.

PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER ESTES PARK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

For the year ended December 31, 2016, the Medical Center adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which is effective for financial statement periods beginning after June 15, 2015. GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and the valuation techniques. See Note 4 to the financial statements for disclosure of fair value measurements.

Fair Value Measurements

To the extent available, the Medical Center's investments are recorded at fair value. GASB Statement No. 72 – *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take in to account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources.

In contrast, unobservable inputs reflect an entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Medical Center has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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NOTE 2 NET PATIENT AND RESIDENT SERVICE REVENUE

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. These payment arrangements include the following:

Hospital and Clinic

Medicare

The Medical Center has elected the Critical Access Hospital (CAH) designation. As a Critical Access Hospital, inpatient acute care services rendered to Medicare program beneficiaries are paid on a cost-reimbursed basis and inpatient nonacute services and outpatient services are reimbursed on a cost basis. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2014. Clinical services are paid on a cost basis or fixed 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. Inpatient nonacute services, certain outpatient services and defined capital costs related to Medicaid beneficiaries are paid based on a cost-reimbursement methodology. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Medical Center's Medicaid cost reports have settled through the year ended December 31, 2013.

In 2012, the state of Colorado adopted a provider fee program, approved by the Centers for Medicare and Medicaid Services (CMS), under which all hospitals in the state were assessed a fee. The inpatient fee is based on a rate for managed care and nonmanaged care days for the reporting period and the outpatient fee is based on a percentage of total outpatient charges. The state of Colorado uses the fees to supplement state budget funds for the Medicaid program, which brings matching federal funds into the program, enabling the state of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible. Beginning with the state fiscal year ended June 30, 2011, funding received in excess of costs to provide these services to Medicaid and uninsured patients may be refunded. As of December 31, 2016 and 2015, the Medical Center has recorded a reserve of approximately \$628,000 and \$-0-, respectively, for the estimated portion of funding received in excess of costs. It is reasonably possible that this estimate could materially change in the near term.

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NOTE 2 NET PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)

Other

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

Uninsured

The Medical Center provides healthcare services to patients who have not purchased commercial healthcare insurance coverage and do not qualify as beneficiaries of the Medicare and Medicaid programs. Based upon financial information obtained, some of these patients qualify for discounts from charges under the Medical Center's charity care policy.

Nursing Facility

Medicare

Inpatient services at the Nursing Facility are paid based on prospectively determined per diem rates. Under a prospective pay system, payments to the Nursing Facility are based on a predetermined package rate based on services provided to patients.

Medicaid

The Nursing Facility is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Nursing Facility and audits thereof by the Medicaid fiscal intermediary.

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

	<u>2016</u>	<u>2015</u>
Medicare	49%	46%
Medicaid	14%	17%
Blue Cross Blue Shield	11%	11%
Other Third Party	21%	22%
Self Pay	5%	4%
Total	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare, Medicaid and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased approximately \$633,000 and \$283,000 for the years ended December 31, 2016 and 2015, respectively, due to change in the allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, review, and investigations.

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NOTE 2 NET PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)

The following is a reconciliation of gross patient and resident service revenue to net patient and resident service revenue for the years ending December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Gross Patient and Resident Service Revenue	\$ 75,030,516	\$ 72,701,521
Less Charity Care	(381,923)	(166,900)
Total Patient and Resident Service Revenue	<u>74,648,593</u>	<u>72,534,621</u>
Contractual Adjustments		
Medicare	(18,438,690)	(15,249,987)
Medicaid	(5,706,746)	(6,441,478)
Blue Cross Blue Shield	(718,844)	(620,963)
Other	(3,415,779)	(2,124,087)
Provision for Bad Debts	(6,369,730)	(5,352,518)
Total Contractual Adjustments and Provision for Bad Debts	<u>(34,649,789)</u>	<u>(29,789,033)</u>
Net Patient and Resident Service Revenue	<u>\$ 39,998,804</u>	<u>\$ 42,745,588</u>

NOTE 3 PATIENT AND RESIDENT ACCOUNTS RECEIVABLE, NET

The Medical Center grants credit without collateral to their patients and residents, most of who are area residents and are insured under third-party payor agreements. Concentrations of patient and resident accounts receivable at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Medicare	38%	54%
Medicaid	11%	9%
Blue Cross Blue Shield	7%	4%
Other Third Party	21%	21%
Self Pay	23%	12%
Total	<u>100%</u>	<u>100%</u>

NOTE 4 DEPOSITS AND INVESTMENTS

Deposits

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 regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by PDPA. PDPA allows the institution to create a single collateral pool for all public funds. 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 the aggregate uninsured deposits.

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NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

The State Regulatory Commissioners for bank and financial services are required by statute to monitor the naming of eligible depositories and reporting of uninsured deposits and assets maintained in collateral pools.

Investments

The Medical Center may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in-bank repurchase agreements. It may also invest to a limited extent in corporate bonds.

At December 31, 2016 and 2015, the Medical Center had the following investments and maturities:

Type	Fair Value	Rating	December 31, 2016			
			Less than 1	1-5	6-10	More than 10
Certificates of Deposit	\$ 6,698,999	NA	\$ 6,310,183	\$ 388,816	\$ -	\$ -
Corporate Bonds	3,486,504	AA - BBB-	3,432,970	53,534	-	-
Total Investments	<u>\$ 10,185,503</u>		<u>\$ 9,743,153</u>	<u>\$ 442,350</u>	<u>\$ -</u>	<u>\$ -</u>

Type	Fair Value	Rating	December 31, 2015			
			Less than 1	1-5	6-10	More than 10
Certificates of Deposit	\$ 3,068,230	NA	\$ 1,627,737	\$ 1,440,493	\$ -	\$ -
U.S. Treasury Securities	422,859	AAA	103,717	319,142	-	-
Corporate Bonds	104,725	AA - AA-	-	104,725	-	-
Total Investments	<u>\$ 3,595,814</u>		<u>\$ 1,731,454</u>	<u>\$ 1,864,360</u>	<u>\$ -</u>	<u>\$ -</u>

Fair Value Measurements

The Medical Center uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Medical Center measures fair value refer to Note 1 – Nature of Operations and Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets and liabilities of the Medical Center measured at fair value on a recurring basis as of December 31, 2016 and 2015:

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Corporate Bonds	\$ -	\$ 3,486,504	\$ -	\$ 3,486,504

Investment Type	December 31, 2015			
	Level 1	Level 2	Level 3	Total
U.S. Treasury Securities	\$ 422,859	\$ -	\$ -	\$ 422,859
Corporate Bonds	-	104,725	-	104,725
Total	<u>\$ 422,859</u>	<u>\$ 104,725</u>	<u>\$ -</u>	<u>\$ 527,584</u>

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NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Credit Risk

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Medical Center's investments in repurchase agreements at December 31, 2016 and 2015 are held by the counterparties in other than the Medical Center's name. The Medical Center's investment policy does not address how the securities' underlying repurchase agreements are to be held.

Summary of Carrying Values

The carrying values of deposits and investments shown are included in the statements of net position as follows:

	<u>2016</u>	<u>2015</u>
Carrying Value:		
Deposits	\$ 13,151,688	\$ 14,966,084
Investments	10,185,503	3,595,814
Total Deposits and Investments	<u>\$ 23,337,191</u>	<u>\$ 18,561,898</u>
	<u>2016</u>	<u>2015</u>
Included in the Following Net Position Captions:		
Cash and Cash Equivalents	\$ 11,723,993	\$ 9,637,216
Restricted Cash Under Debt Agreement	1,393,507	1,226,240
Noncurrent Cash and Investments:		
Long-Term Investments	10,185,503	3,595,814
Internally Designated	28,468	4,096,911
Restricted by Donors	5,720	5,717
Total Deposits and Investments	<u>\$ 23,337,191</u>	<u>\$ 18,561,898</u>

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NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Income

Investment income consisted of the following for the years ending December 31, 2016 and 2015:

	2016	2015
Interest Income	\$ 126,373	\$ 83,255
Unrealized Losses	(6,820)	(41,783)
Total	<u>\$ 119,553</u>	<u>\$ 41,472</u>

NOTE 5 CAPITAL ASSETS, NET

Capital asset activity for the year ended December 31, 2016 was as follows:

	2016				Ending Balance
	Beginning Balance	Additions	Disposals and Retirements	Transfers	
Land	\$ 513,973	\$ -	\$ -	\$ -	\$ 513,973
Land Improvements	918,187	-	(6,847)	-	911,340
Buildings and Leasehold Improvements	39,095,096	52,878	(69,546)	203,412	39,281,840
Equipment	10,780,635	1,072,317	(1,428,576)	285,263	10,709,639
Construction in Progress	55,304	634,433	-	(488,675)	201,062
Total	<u>51,363,195</u>	<u>1,759,628</u>	<u>(1,504,969)</u>	<u>-</u>	<u>51,617,854</u>
Less: Accumulated Depreciation:					
Land Improvements	561,727	52,863	(6,847)	-	607,743
Buildings and Leasehold Improvements	11,976,758	1,148,481	(69,546)	-	13,055,693
Equipment	7,466,285	1,277,336	(1,428,576)	-	7,315,045
	<u>20,004,770</u>	<u>2,478,680</u>	<u>(1,504,969)</u>	<u>-</u>	<u>20,978,481</u>
Capital Assets, Net	<u>\$ 31,358,425</u>	<u>\$ (719,052)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,639,373</u>

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NOTE 5 CAPITAL ASSETS, NET (CONTINUED)

Capital asset activity for the year ended December 31, 2015 was as follows:

	2015				Ending Balance
	Beginning Balance	Additions	Disposals and Retirements	Transfers	
Land	\$ 513,973	\$ -	\$ -	\$ -	\$ 513,973
Land Improvements	923,067	-	(4,880)	-	918,187
Buildings and Leasehold Improvements	39,679,989	109,786	(934,031)	239,352	39,095,096
Equipment	11,000,043	588,772	(808,180)	-	10,780,635
Construction in Progress	105,154	189,502	-	(239,352)	55,304
Total	<u>52,222,226</u>	<u>888,060</u>	<u>(1,747,091)</u>	<u>-</u>	<u>51,363,195</u>
Less: Accumulated Depreciation:					
Land Improvements	505,933	60,675	(4,881)	-	561,727
Buildings and Leasehold Improvements	11,749,242	1,147,046	(919,530)	-	11,976,758
Equipment	6,849,170	1,439,795	(822,680)	-	7,466,285
	<u>19,104,345</u>	<u>2,647,516</u>	<u>(1,747,091)</u>	<u>-</u>	<u>20,004,770</u>
Capital Assets, Net	<u>\$ 33,117,881</u>	<u>\$ (1,759,456)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,358,425</u>

Construction in progress at December 31, 2016 consists of costs related to multiple projects including an infant security system and ambulance purchase. The total expected cost of these projects is approximately \$495,000. The projects are being funded through operations and are expected to be completed during the spring and summer of 2017.

NOTE 6 LINE OF CREDIT

The Medical Center has entered into a line of credit agreement with a financial institution that provides for the available borrowings of \$3,000,000. The agreement matured on July 30, 2016 and was subsequently renewed through July 30, 2017. Borrowings under the line of credit bear interest at the Prime Rate as published by the Wall Street Journal. The minimum interest rate is 3.5% and the line of credit is secured by all accounts the Medical Center holds with the financial institution, to the extent permitted by applicable law. There was no amount outstanding as of December 31, 2016 and 2015.

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NOTE 7 LONG-TERM DEBT

The following is a summary of long-term debt transactions for the Medical Center for the years ended December 31, 2016 and 2015:

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Promissory Notes, Series 2016	\$ -	\$ 17,625,000	\$ -	\$ 17,625,000	\$ 1,020,000
Limited Tax-Revenue Bonds	18,445,000	-	(18,445,000)	-	-
Bond Premium	14,120	-	(14,120)	-	-
Capital Lease Obligations	561,433	-	(302,931)	258,502	243,582
Total Long-Term Debt	<u>\$ 19,020,553</u>	<u>\$ 17,625,000</u>	<u>\$ (18,762,051)</u>	<u>\$ 17,883,502</u>	<u>\$ 1,263,582</u>

	2015				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Limited Tax-Revenue Bonds	\$ 19,235,000	\$ -	\$ (790,000)	\$ 18,445,000	\$ 820,000
Bond Premium	15,061	-	(941)	14,120	-
Capital Lease Obligations	855,584	-	(294,151)	561,433	302,931
Total Long-Term Debt	<u>\$ 20,105,645</u>	<u>\$ -</u>	<u>\$ (1,085,092)</u>	<u>\$ 19,020,553</u>	<u>\$ 1,122,931</u>

During 2016, the Medical Center refinanced its Limited Tax-Revenue Bonds Series 2006 (the Bonds) with Promissory Notes, Series 2016 (the Notes). The Medical Center used the proceeds from the Notes of \$17,625,000 and deposits restricted under the 2006 bond indenture to complete the refinancing. The Notes bear interest of 1.85% and 2.90% with the interest being payable semiannually on each January 1 and July 1 and principal being due in varying annual installments through December 31, 2031. The Notes are secured by the Medical Center's pledged revenues.

The Medical Center's Limited Tax-Revenue Bonds Series 2006 bore interest rates of 4.0% and 4.625%. Interest was payable semiannually on each January 1 and July 1 and principal was due in varying annual installments through January 2031. The Bonds were secured by the Medical Center's pledged revenues.

Refinancing Transaction

As part of the issuance of the Series 2016 Promissory Notes in fiscal year 2016 to refinance the outstanding Series 2006 Limited Tax-Revenue Bonds there was no gain (loss) recorded on the refinancing of the long-term debt.

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NOTE 7 LONG-TERM DEBT (CONTINUED)

Restrictive Covenants

Under the terms of the Promissory Notes, Series 2016 agreement, the Medical Center is required to maintain certain deposits with the lender. Such deposits are included in restricted cash under debt agreement on the statements of net position. The Promissory Notes agreement also requires that the Medical Center satisfy certain measures of financial performance including maintaining a debt-service coverage ratio of at least 1.25, have 90 days of cash on hand, and places restrictions on incurrence of additional debt. Management believes the Medical Center is in compliance with restrictive covenants at December 31, 2016.

Scheduled principal and interest payments on bank loans and capital lease obligations are as follows:

<u>Year Ending December 31,</u>	<u>Promissory Notes, Series 2016</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,020,000	\$ 427,562	\$ 243,582	\$ 3,919
2018	1,020,000	408,430	14,920	38
2019	1,040,000	389,112	-	-
2020	1,060,000	370,403	-	-
2021	1,085,000	349,304	-	-
2022 - 2026	5,755,000	1,380,531	-	-
2027-2031	6,645,000	501,495	-	-
Total	<u>\$ 17,625,000</u>	<u>\$ 3,826,837</u>	<u>\$ 258,502</u>	<u>\$ 3,957</u>

Capital Lease Obligations

The Medical Center is obligated under lease agreements for equipment that are accounted for as a capital lease obligations. The total cost of the assets under capital leases at December 31, 2016 and 2015 was \$898,387, net of accumulated depreciation of \$700,898 and \$518,892, respectively. The capital lease obligations require varying monthly payments at interest rates ranging from 2.8% to 3% through January 2018 and are secured by the leased equipment.

NOTE 8 PENSION PLAN

The Medical Center has a defined contribution plan covering substantially all employees who meet age and hour requirements. Employer contributions to the plan are based on a percentage of eligible employee compensation for plan participants. Total pension expense for the years ended December 31, 2016, 2015, and 2014 was \$1,224,197, \$1,151,761, and \$1,176,855, respectively.

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ESTES PARK MEDICAL CENTER
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NOTE 9 COMMITMENTS AND CONTINGENCIES

Risk Management

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

Litigation

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected losses, which are not covered by insurance, if any. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Malpractice Claims

The Medical Center pays fixed premiums for annual medical malpractice insurance coverage under a claims-made policy. The medical malpractice insurance coverage is subject to a \$1 million per claim limit and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. The Medical Center is not aware of any unasserted claims, unreported incidents or claims outstanding, which are expected to exceed malpractice insurance coverage limits as of December 31, 2016. Further, the Medical Center is subject to the provisions of the Colorado Government Immunity Act, which provides a limitation on the liability of the Medical Center. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Employee Health Insurance

Substantially all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is partially self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$75,000 per claim. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Medical Center's estimate will change by a material amount in the near term.

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ESTES PARK MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Activity in the Medical Center's accrued employee health claims liability during 2016 and 2015 is summarized as follows:

	2016	2015
Balance - Beginning of Year	\$ 435,000	\$ 568,941
Current Year Claims Incurred and Changes in Estimate for Claims Incurred in Prior Years	2,978,031	3,369,895
Claims and Expenses Paid	(2,946,031)	(3,503,836)
Balance - End of Year	\$ 467,000	\$ 435,000

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously, billed and collected revenues from patient services. The Medical Center operates a Compliance Committee which reviews the operations of the Medical Center. The Medical Center records allowances where the government has shown a pattern of adjusting periodic reports submitted by the Medical Center, including Medicare cost reports or tax reporting, or where internal reviews indicate the possibility of future adjustments. Management believes that the Medical Center is in substantial compliance with current laws and regulations.

Other

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence of care
- Environmental pollution
- Violation of a regulatory body's rules and regulations
- Violation of federal and/or state laws

No other contingent liabilities such as, but not limited to those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Park Hospital District
dba: Estes Park Medical Center
Estes Park, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Park Hospital District dba: Estes Park Medical Center (the Medical Center), which comprise the statement of net position as of December 31, 2016, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceeding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we considered to be a material weaknesses and a significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as 2016-001 to be a material weakness.

Board of Directors
Park Hospital District
dba: Estes Park Medical Center

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as 2016-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Medical Center's Response to Findings

The Medical Center's response to the findings identified in our audit are described in the accompanying schedule of findings. The Medical Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Broomfield, Colorado
June 20, 2017

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
ESTES PARK MEDICAL CENTER
SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

2016-001: CONTROL OVER THE FINANCIAL REPORTING PROCESS

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition

As part of the audit, management requested CliftonLarsonAllen to prepare a draft of their financial statements, including the related notes to financial statements. Management reviewed, approved, and accepted responsibility for those financial statements; however management relies on the outsourced expertise of the CPA firm to assure compliance with accounting standards including all required footnote disclosures.

Criteria

It is the responsibility of management to assure financial statements including all required footnote disclosures are presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

Effect

Material misstatements related to financial statement presentation and disclosures could be present.

Cause

Management feels that committing the resources necessary to develop the expertise and perform a detail review of the footnote disclosure for completeness would be a duplication of expenditures, as this is part of the cost of the audit engagement. In addition, the Controller reviews internal financial statements on a monthly basis and presents the results to the board of directors.

Context

While performing audit procedures, it was noted that management does not have internal controls in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles.

Recommendation

We recommend that management implement an effective financial statement review process which would ensure compliance with accounting standards and all required footnote disclosures.

Management's Response

On June 1, 2017, Estes Park Medical Center engaged with a full time permanent Chief Financial Officer. It is expected that any matters relating to internal control will be mitigated, with the Chief Financial Officer's monthly review of the accounting cycle, in accordance with GAAP.

**PARK HOSPITAL DISTRICT
DBA: ESTES PARK MEDICAL CENTER
ESTES PARK MEDICAL CENTER
SCHEDULE OF FINDINGS (CONTINUED)
DECEMBER 31, 2016**

2016-002: SEGREGATION OF DUTIES

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Condition

The limited number of staff in the finance department at the Medical Center does not facilitate the segregation of duties necessary to achieve a low level of control risk.

Criteria

A good system of internal controls provides for appropriate segregation of duties so no one individual is responsible for authorizing, processing, and recording a transaction.

Effect

Material misstatements related to financial statement presentation and disclosures could be present.

Cause

The Medical Center was without a full-time Chief Financial Officer in fiscal year 2016 which limited the ability to segregate duties within the finance department. Also, the Medical Center's size and budget limit the number of personnel that can be hired within the finance department.

Context

While performing audit procedures it was noted that there was not a formal review of journal entries made throughout fiscal year 2016 due to the lack of having a full-time chief financial officer.

Recommendation

We recommend the Medical Center continually review its internal control procedures to segregate duties to the best of its abilities. Where duties are not able to be fully segregated we recommend the Medical Center implement other compensating controls to reduce the possibility of internal controls being overrode.

Management's Response

With the recent hire of a new CFO, it is expected that whenever possible given the limited staffing in the finance department, that compensating controls will be implemented to reduce any potential misstep of internal controls.