

**Prowers County Hospital District  
doing business as  
Prowers Medical Center**

Basic Financial Statements and  
Independent Auditors' Report

December 31, 2016 and 2015



**RECEIVED**

*By the Office of the State Auditor at 7:36 am, Jun 22, 2017*



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

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Table of Contents**

	<b>Page</b>
<i>INDEPENDENT AUDITORS' REPORT</i>	1-2
<i>BASIC FINANCIAL STATEMENTS:</i>	
Statements of net position	3-4
Statements of revenues, expenses, and changes in net position	5
Statements of cash flows	6-7
Notes to basic financial statements	8-21
<i>SUPPLEMENTAL INFORMATION:</i>	
Schedule of budget and actual revenues and expenses	22



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Prowers County Hospital District  
doing business as Prowers Medical Center  
Lamar, Colorado

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

We have audited the accompanying financial statements of Prowers County Hospital District doing business as Prowers Medical Center (the District) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

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

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

## **Opinion**

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

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

The schedule of budget and actual revenues and expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of budget and actual revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
April 14, 2017

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Statements of Net Position**  
**December 31, 2016 and 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 13,330,577	\$ 9,313,433
Receivables:		
Patient accounts, net of estimated uncollectibles of \$1,096,903 and \$1,007,716, respectively	3,078,587	2,934,674
Estimated third-party payor settlements	400,000	93,000
Taxes	350,326	343,133
Other	159,431	263,855
Certificates of deposit	253,633	906,289
Inventories	717,006	477,654
Prepaid expenses	703,316	446,893
Total current assets	18,992,876	14,778,931
<i>Noncurrent assets</i>		
Cash and cash equivalents designated by Board for capital acquisitions	-	591,549
Cash and cash equivalents restricted by bond agreement for capital acquisition and reserve fund	3,167,973	5,537,465
Capital assets, net	18,528,715	16,662,679
Total noncurrent assets	21,696,688	22,791,693
<b>Total assets</b>	<b>\$ 40,689,564</b>	<b>\$ 37,570,624</b>

*See accompanying notes to basic financial statements.*

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Statements of Net Position (Continued)**  
**December 31, 2016 and 2015**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>2016</b>	<b>2015</b>
<i>Current liabilities</i>		
Accounts payable	\$ 743,468	\$ 679,219
Accrued compensation and related liabilities	1,278,798	1,301,082
Estimated third-party payor settlements	335,000	350,000
Disproportionate Share Hospital program payable	126,992	549,891
Current maturities of long-term debt	514,759	492,618
Total current liabilities	2,999,017	3,372,810
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	12,887,914	13,402,673
Accounts payable – capital	473,259	637,523
Total liabilities	16,360,190	17,413,006
<i>Deferred inflows of resources, taxes</i>	346,000	338,000
<i>Net position</i>		
Net investment in capital assets	4,652,783	2,129,865
Restricted for debt reserve	1,566,942	1,562,695
Unrestricted	17,763,649	16,127,058
Total net position	23,983,374	19,819,618
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 40,689,564</b>	<b>\$ 37,570,624</b>

*See accompanying notes to basic financial statements.*

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$826,587 and \$1,209,108, respectively	\$ 28,714,375	\$ 29,289,272
Electronic health records incentive	81,316	348,249
Grants	151,817	88,831
Other revenue	186,000	202,423
<b>Total operating revenues</b>	<b>29,133,508</b>	<b>29,928,775</b>
<i>Operating expenses</i>		
Salaries and wages	10,639,531	10,865,147
Employee benefits	2,395,141	2,411,341
Professional fees and other purchased services	5,580,384	4,756,399
Supplies	2,853,389	3,100,790
Utilities	542,559	563,489
Depreciation	1,143,609	1,005,029
Insurance	279,152	244,192
Leases and rentals	223,840	250,408
Repairs and maintenance	384,807	395,016
Provider fees	604,901	806,582
Other	546,751	660,971
<b>Total operating expenses</b>	<b>25,194,064</b>	<b>25,059,364</b>
<i>Operating income</i>	<b>3,939,444</b>	<b>4,869,411</b>
<i>Nonoperating revenues (expenses)</i>		
Property taxes	390,451	386,972
Investment income	46,314	24,378
Interest expense	(243,628)	(69,787)
Contributions	11,102	19,778
Loss on disposal of capital assets	(14,834)	(4,267)
<b>Total nonoperating revenues (expenses), net</b>	<b>189,405</b>	<b>357,074</b>
Excess of revenues over expenses before capital grants and contributions	4,128,849	5,226,485
<i>Capital grants and contributions</i>	<b>34,907</b>	<b>433,092</b>
Change in net position	4,163,756	5,659,577
Net position, beginning of year	19,819,618	14,160,041
<b>Net position, end of year</b>	<b>\$ 23,983,374</b>	<b>\$ 19,819,618</b>

See accompanying notes to basic financial statements.

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b><i>Increase in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 27,825,563	\$ 30,277,553
Receipts from electronic health records incentive	81,316	448,249
Receipts from grants	151,817	88,831
Other receipts	186,000	202,423
Payments to and on behalf of employees	(13,056,956)	(13,195,394)
Payments to suppliers and contractors	(11,342,885)	(10,874,102)
Net cash provided by operating activities	<b>3,844,855</b>	6,947,560
<i>Cash flows from noncapital financing activities</i>		
Property taxes	391,258	385,318
Cash received from contributions	11,102	19,778
Net cash provided by noncapital financing activities	<b>402,360</b>	405,096
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(3,190,090)	(8,246,766)
Capital grants	34,907	306,079
Proceeds from sale of capital assets	1,347	-
Principal paid on long-term debt	(492,618)	(584,709)
Proceeds from issuance of long-term debt	-	11,060,167
Interest paid on long-term debt	(243,628)	(69,787)
Net cash provided by (used in) capital and related financing activities	<b>(3,890,082)</b>	2,464,984
<i>Cash flows from investing activities</i>		
Investment income	46,314	24,378
Proceeds from sale of certificates of deposit	906,289	902,739
Purchase of certificates of deposit	(253,633)	(906,289)
Net cash provided by investing activities	<b>698,970</b>	20,828
Net increase in cash and cash equivalents	<b>1,056,103</b>	9,838,468
Cash and cash equivalents, beginning of year	<b>15,442,447</b>	5,603,979
<b>Cash and cash equivalents, end of year</b>	<b>\$ 16,498,550</b>	<b>\$ 15,442,447</b>

*See accompanying notes to basic financial statements.*

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents	\$ 13,330,577	\$ 9,313,433
Cash and cash equivalents designated by Board for capital acquisitions	-	591,549
Cash and cash equivalents restricted by bond agreement for capital acquisition and reserve fund	<b>3,167,973</b>	5,537,465
<b>Total cash and cash equivalents</b>	<b>\$ 16,498,550</b>	<b>\$ 15,442,447</b>
<b><i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i></b>		
Operating income	\$ 3,939,444	\$ 4,869,411
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>		
Depreciation	<b>1,143,609</b>	1,005,029
Provision for bad debts	<b>826,587</b>	1,209,108
Decrease (increase) in assets:		
Receivables:		
Patient accounts receivable	<b>(970,500)</b>	(793,819)
Estimated third-party payor settlements	<b>(307,000)</b>	213,503
Electronic health records incentive receivable	-	100,000
Other	<b>104,424</b>	60,856
Inventories	<b>(239,352)</b>	38,696
Prepaid expenses	<b>(256,423)</b>	(7,115)
Increase (decrease) in liabilities:		
Accounts payable	<b>64,249</b>	(188,692)
Accrued compensation and related liabilities	<b>(22,284)</b>	81,094
Estimated third-party payor settlements	<b>(15,000)</b>	350,000
Disproportionate Share Hospital program payable	<b>(422,899)</b>	9,489
<b>Net cash provided by operating activities</b>	<b>\$ 3,844,855</b>	<b>\$ 6,947,560</b>

*See accompanying notes to basic financial statements.*

**Prowers County Hospital District  
doing business as Prowers Medical Center  
Notes to Basic Financial Statements  
Years Ended December 31, 2016 and 2015**

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

**a. Reporting Entity**

Prowers County Hospital District doing business as Prowers Medical Center (the District) is an independent governmental entity organized under provisions of the Colorado Revised Statutes. It operates within Prowers and Baca Counties, but is not part of the County governments. As organized, the District is exempt from payment of federal income tax. The Board of Directors consists of five elected residents of southeast Colorado.

The District operates a licensed 25-bed critical access hospital, clinics, and a home health agency. The services provided include medical-surgical, obstetrics, pediatrics, surgery, emergency room, clinic, and the related ancillary services (laboratory, imaging, chemotherapy, cardiology, physical therapy, respiratory therapy, etc.).

**b. Summary of Significant Accounting Policies**

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

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

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

*Certificates of deposit* – Certificates of deposit are reported at fair value.

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

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

*Cash and cash equivalents designated by Board for capital acquisitions* – Cash and cash equivalents designated by Board for capital acquisitions include assets set aside by the Board of Directors for future capital improvements over which the Board retains control and could subsequently use for other purposes.

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

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

**b. Summary of Significant Accounting Policies (continued)**

**Compensated absences** – The District’s policy is to permit employees to accumulate earned but unused paid time off (PTO) benefits after the first 30 days of employment. Depending on years of service, PTO accrues from 128 up to 208 hours per year. The District’s policy is to permit employees to accumulate PTO up to a maximum of 200 hours. Upon reaching 200 hours, any excess PTO earned that would extend an employee over the stated maximum is transferred to an individual catastrophic sick leave (CSL) bank. Upon termination or retirement, the CSL bank is dissolved. The hours are not converted to compensation for liquidation of the account. As of December 31, 2016 and 2015, \$486,384 and \$468,268, respectively, were accrued for PTO.

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

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

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

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

**Subsequent events** – The District has evaluated subsequent events through April 14, 2017, the date on which the financial statements were available to be issued.

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**2. Bank Deposits and Certificates of Deposit:**

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

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

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk.

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

**3. Patient Accounts Receivable:**

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

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

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**3. Patient Accounts Receivable (continued):**

Patient accounts receivable reported as current assets by the District consisted of these amounts:

	2016	2015
Receivable from patients and their insurance carriers	\$ 2,590,610	\$ 2,395,791
Receivable from Medicare	1,073,664	1,202,607
Receivable from Medicaid	511,216	343,992
Total patient accounts receivable	4,175,490	3,942,390
Less allowance for uncollectible accounts	1,096,903	1,007,716
<b>Patient accounts receivable, net</b>	<b>\$ 3,078,587</b>	<b>\$ 2,934,674</b>

**4. Property Taxes:**

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

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

For 2016, the District's regular tax levy was \$2.671 per \$1,000 on a total assessed valuation of \$126,559,809, for a total regular levy of \$344,623. For 2015 the District's regular tax levy was \$2.723 per \$1,000 on a total assessed valuation of \$121,644,714, for a total regular levy of \$331,239.

**5. Capital Assets:**

The District capitalizes assets whose costs exceed \$5,000 and an estimated useful life greater than three years. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues or expenses.

All capital assets, other than land and construction in progress, are being depreciated using the straight-line method over the shorter period of the lease term or the estimated useful life of the capital asset. Such amortization is included in depreciation in the financial statements.

Useful lives have been estimated as follows:

Land improvements	5 to 40 years
Buildings and improvements	5 to 40 years
Equipment	3 to 30 years

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

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

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

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 52,827	\$ -	\$ -	\$ -	\$ 52,827
Construction in progress	8,887,558	2,796,310	(124,435)	(11,479,586)	79,847
Total capital assets not being depreciated	8,940,385	2,796,310	(124,435)	(11,479,586)	132,674
<i>Capital assets being depreciated</i>					
Land improvements	203,117	-	-	248,380	451,497
Buildings and improvements	12,235,372	11,524	(35,014)	4,609,135	16,821,017
Equipment	11,948,551	342,427	(2,195,482)	6,622,071	16,717,567
Total capital assets being depreciated	24,387,040	353,951	(2,230,496)	11,479,586	33,990,081
<i>Less accumulated depreciation for</i>					
Land improvements	(181,461)	(12,771)	-	-	(194,232)
Buildings and improvements	(6,074,729)	(415,630)	34,732	-	(6,455,627)
Equipment	(10,408,556)	(715,208)	2,179,583	-	(8,944,181)
Total accumulated depreciation	(16,664,746)	(1,143,609)	2,214,315	-	(15,594,040)
<i>Total capital assets being depreciated, net</i>	7,722,294	(789,658)	(16,181)	11,479,586	18,396,041
<b>Capital assets, net</b>	<b>\$ 16,662,679</b>	<b>\$ 2,006,652</b>	<b>\$ (140,616)</b>	<b>\$ -</b>	<b>\$ 18,528,715</b>

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

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

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Land	\$ 52,827	\$ -	\$ -	\$ -	\$ 52,827
Construction in progress	644,438	8,325,039	(27,364)	(54,555)	8,887,558
Total capital assets not being depreciated	697,265	8,325,039	(27,364)	(54,555)	8,940,385
<i>Capital assets being depreciated</i>					
Land improvements	203,117	-	-	-	203,117
Buildings and improvements	12,235,372	-	-	-	12,235,372
Equipment	11,355,992	586,614	(48,610)	54,555	11,948,551
Total capital assets being depreciated	23,794,481	586,614	(48,610)	54,555	24,387,040
<i>Less accumulated depreciation for</i>					
Land improvements	(173,300)	(8,161)	-	-	(181,461)
Buildings and improvements	(5,751,567)	(323,162)	-	-	(6,074,729)
Equipment	(9,779,193)	(673,706)	44,343	-	(10,408,556)
Total accumulated depreciation	(15,704,060)	(1,005,029)	44,343	-	(16,664,746)
<i>Total capital assets being depreciated, net</i>	8,090,421	(418,415)	(4,267)	54,555	7,722,294
<b>Capital assets, net</b>	<b>\$ 8,787,686</b>	<b>\$ 7,906,624</b>	<b>\$ (31,631)</b>	<b>\$ -</b>	<b>\$ 16,662,679</b>

Construction in progress at December 31, 2016, consisted primarily of a telephone system which is expected to be completed in 2017, with an estimated cost to complete of \$63,000.

**6. Employee Health Self-insurance:**

The District offers a health insurance plan to all employees, effective the first day of the month following completion of a 30-day waiting period. The plan is administered by the District. The District records plan expenses as incurred. The District accrues an incurred but not reported (IBNR) liability for plan claims that have been incurred but have not yet been reported to the District. The liability is included in accrued compensation and related liabilities on the statements of net position. The District has also purchased a supplementary insurance policy to cover claims in excess of \$55,000.

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**6. Employee Health Self-insurance (continued):**

Changes in the District's IBNR amount were as follows:

	<b>2016</b>	<b>2015</b>
Claim liability, beginning of year	\$ 211,902	\$ 168,578
Current year claims and changes in estimates	1,435,347	1,392,110
Claim payments	(1,495,138)	(1,348,786)
<b>Claim liability, end of year</b>	<b>\$ 152,111</b>	<b>\$ 211,902</b>

**7. Long-term Debt:**

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

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>December 31,</b>			<b>December 31,</b>	<b>Due Within</b>
	<b>2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>2016</b>	<b>One Year</b>
<i>Long-term debt</i>					
Improvement Revenue Bond, Series 2014	\$ 13,895,291	\$ -	\$ (492,618)	\$ 13,402,673	\$ 514,759

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>December 31,</b>			<b>December 31,</b>	<b>Due Within</b>
	<b>2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>2015</b>	<b>One Year</b>
<i>Long-term debt</i>					
Improvement Revenue Bond, Series 2014	\$ 3,419,833	\$ 11,060,167	\$ (584,709)	\$ 13,895,291	\$ 492,618

*Long-term debt* – The terms and due dates of the District's long-term debt are as follows:

- Improvement Revenue Bond, Series 2014, dated December 17, 2014, in the original amount of \$14,480,000, for the purpose of expansion and renovation of the District's existing facility and the refinancing of existing debt. The bond is payable semiannually on June 17 and December 17 in \$531,269 installments, including interest at 4.07% through June 2024. A final balloon payment for the remaining outstanding balance is due December 15, 2024.

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**7. Long-term Debt (continued):**

Scheduled principal and interest payments on the Improvement Revenue Bond, Series 2014 are as follows:

<b>Years Ending December 31,</b>	<b>Long-term Debt</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 514,759	\$ 547,779	\$ 1,062,538
2018	536,220	526,318	1,062,538
2019	558,575	503,963	1,062,538
2020	580,502	482,036	1,062,538
2021	606,064	456,474	1,062,538
2022-2024	10,606,553	1,214,633	11,821,186
	<b>\$ 13,402,673</b>	<b>\$ 3,731,203</b>	<b>\$ 17,133,876</b>

**8. Commitments Under Noncancelable Operating Leases and Service Agreements:**

Following is a summary of future minimum obligations under noncancelable operating leases for equipment and future service contract expenses:

<b>Years Ending December 31,</b>	<b>Amount</b>
2017	\$ 231,997
2018	138,162
2019	132,872
2020	94,099
	<b>\$ 597,130</b>

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**9. Net Patient Service Revenue:**

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

	<b>2016</b>	<b>2015</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 10,548,751	\$ 10,667,832
Medicaid	5,327,411	5,036,677
Other third-party payors	8,064,480	7,765,699
Patients	1,453,978	1,404,487
Supplemental payments	4,495,347	6,104,337
340b contract pharmacy	205,401	86,766
	<b>30,095,368</b>	<b>31,065,798</b>
Less:		
Charity care	554,406	567,418
Provision for bad debts	826,587	1,209,108
<b>Net patient service revenue</b>	<b>\$ 28,714,375</b>	<b>\$ 29,289,272</b>

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

- *Medicare* – The District has been designated a critical access hospital by Medicare and is reimbursed for inpatient and outpatient services and rural health clinic visits on a cost basis as defined and limited by the Medicare program. Physician services outside the rural health clinic are paid on a fee schedule. Home health is reimbursed on a prospective rate per episode of care. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

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

- *Medicaid* – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Most outpatient services are paid on a cost basis. Rural health clinic visits are reimbursed on prospectively set rates per encounter. Physician services outside the rural health clinic are reimbursed on a fee schedule. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid.

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

Laws and regulations governing 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 decreased by approximately \$14,000 in 2016, and increased by approximately \$40,000 in 2015, due to differences between the original estimates and revised estimates or final settlements.

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

The District received notice that it would be required to repay Medicaid due to overpayments received from the Disproportionate Share Hospital program (DSH). The Hospital had settlements due to Medicaid for DSH overpayment of \$126,992 and \$549,891 for the years ended December 31, 2016 and 2015, respectively.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2016 and 2015, were approximately \$312,000 and \$323,000, respectively.

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

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

The District recognized Medicare and Medicaid electronic health records (EHR) incentive payments during the years ended December 31, 2016 and 2015. The EHR incentive payments are provided to incent hospitals and eligible providers to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The District recognizes the Medicare incentive payment on the date that the District has successfully complied with meaningful use criteria during the entire EHR reporting period.

The Medicare incentive payment recognized is an estimate and subject to audit by CMS. The Medicare EHR incentive payment is based on the days reported in the prior year Medicare cost report and the undepreciated cost of the EHR equipment submitted to CMS. The final payment will be based on days reported in the current Medicare cost report. A Medicare incentive payment of \$162,849 was recognized as revenue in 2015.

The District recognized the first of its three Medicaid incentive payments in the year that certified EHR technology was adopted, implemented, or upgraded or when such technology is meaningfully used under the Medicare EHR incentive program. The subsequent three payments were issued when meaningful use was demonstrated under Medicare. A Medicaid incentive payment of \$108,900 was recognized as revenue in 2015.

The District also received and recognized \$81,300 and \$76,500 of Medicaid incentive payments for its eligible providers in 2016 and 2015, respectively.

**11. Defined Contribution Plan:**

The District sponsors and administers a defined contribution retirement plan. The Prowers Medical Center Employees' Pension Plan (the Plan) is available to all employees who have completed one year of service. In the first year of employment, employees may choose to make pre-tax contributions as a percentage of their gross pay, up to 4%. After one year of service, the District will match half of the employees' voluntary contributions up to 4%. This matching contribution is in addition to the base 1% District contribution for all eligible employees, regardless of whether the employee chooses to make any additional voluntary contributions. Employees are permitted to make contributions up to the applicable Internal Revenue Code limits.

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**11. Defined Contribution Plan (continued):**

Vesting is based on years of credited service as set forth in the following table. Service prior to the date in which an employee becomes a participant in the Plan does not qualify for vesting purposes. A participant will become 100% vested immediately upon early retirement, attainment of normal retirement age, or death.

<b>Participant's Years of Service</b>	<b>Vested Percentage</b>
Less than 1	0%
1	20%
2	40%
3	60%
4	80%
5 or more	100%

Nonvested accounts are forfeited to the Plan and can be used to reduce future employer contributions. Forfeitures of approximately \$53,000 and \$-0- were recognized in the years ended December 31, 2016 and 2015, respectively.

The District has the authority to amend the Plan.

Employee contributions to the Plan during the years ended December 31, 2016 and 2015, were approximately \$506,000 and \$534,000, respectively. The District made matching contributions to the Plan of approximately \$175,000 and \$177,000 for the years ended December 31, 2016 and 2015, respectively.

The District had no liability to the Plan at December 31, 2016 and 2015.

**12. Commitments:**

The District entered into a management contract with Quorum Health Resources, LLC (QHR) on May 23, 2008, for the management, administration, and operation of the District. The agreement calls for the District to pay QHR an annual base fee, with a provision for annual increases based on the changes in the Consumer Price Index and pass-through salaries and benefit costs for management. The term of the agreement extends through December 31, 2017. The District's estimated future commitment to QHR for management fees and executive salaries is approximately \$690,000.

Total payments to QHR under the management contract during the years ended December 31, 2016 and 2015, were approximately \$749,000 and \$670,000, respectively.

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**13. Contingencies:**

**Medical malpractice claims** – The District has professional liability insurance with National Fire & Marine Insurance Company. The policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policies. If there are unreported incidents which result in a malpractice claim in the current year, such claims would be covered in the year the claim was reported to the insurance carrier only if the District purchased claims-made insurance in that year or the District purchased “tail” insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy. The malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has a \$25,000 deductible per claim.

The District also holds an excess coverage policy with National Fire & Marine Insurance Company. The excess coverage policy provides coverage with an annual aggregate limit of \$5,000,000. The policy has no deductible.

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

**Industry regulations** – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

**Taxpayer’s Bill of Rights** – 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 governments. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment’s language in order to determine its compliance.

**Litigation** – The District is also involved in litigation and regulatory investigations arising in the normal course of business. The District 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 ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**14. Concentration of Risk:**

*Patient accounts receivable* – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Prowers and Baca Counties.

The mix of receivables from patients was as follows:

	<b>2016</b>	<b>2015</b>
Medicare	<b>33 %</b>	39 %
Medicaid	<b>21</b>	15
Other third-party payors	<b>25</b>	26
Patients	<b>21</b>	20
	<b>100 %</b>	100 %

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

**SUPPLEMENTAL INFORMATION**

**Prowers County Hospital District**  
**doing business as Prowers Medical Center**  
**Schedule of Budget and Actual Revenues and Expenses**  
**Year Ended December 31, 2016**

	Actual	Original and Final Approved Budget	Favorable (Unfavorable) Variance
<i>Operating revenues</i>			
Net patient service revenue	\$ 28,714,375	\$ 27,919,649	\$ 794,726
Electronic health records incentive	81,316	-	81,316
Grants	151,817	-	151,817
Other revenue	186,000	347,230	(161,230)
<b>Total operating revenues</b>	<b>29,133,508</b>	<b>28,266,879</b>	<b>866,629</b>
<i>Operating expenses</i>			
Salaries, wages, and employee benefits	13,034,672	13,992,829	958,157
Professional fees and other purchased services	5,580,384	4,570,034	(1,010,350)
Supplies	2,853,389	3,212,910	359,521
Depreciation	1,143,609	1,257,063	113,454
Provider fees	604,901	-	(604,901)
Other	1,977,109	2,264,046	286,937
<b>Total operating expenses</b>	<b>25,194,064</b>	<b>25,296,882</b>	<b>102,818</b>
<b>Operating income</b>	<b>3,939,444</b>	<b>2,969,997</b>	<b>969,447</b>
<i>Nonoperating revenues (expenses)</i>			
Property taxes	390,451	391,004	(553)
Investment income	46,314	-	46,314
Interest expense	(243,628)	(569,920)	326,292
Contributions	11,102	-	11,102
Loss on disposal of capital assets	(14,834)	-	(14,834)
<b>Total nonoperating revenues (expenses), net</b>	<b>189,405</b>	<b>(178,916)</b>	<b>368,321</b>
<b>Capital grants and contributions</b>	<b>34,907</b>	<b>-</b>	<b>34,907</b>
<b>Change in net position</b>	<b>\$ 4,163,756</b>	<b>\$ 2,791,081</b>	<b>\$ 1,372,675</b>

*See accompanying independent auditors' report.*