

**Eastern Rio Blanco County
Health Service District
doing business as
Pioneers Medical Center**

Basic Financial Statements and
Independent Auditors' Report

December 31, 2017 and 2016

E

RECEIVED

Office of the State Auditor

July 30, 2018



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Table of Contents**

	Page
<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	8-23
<i>SUPPLEMENTAL INFORMATION:</i>	
Schedule of budget and actual revenues and expenses	24



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Meeker, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern Rio Blanco County Health Service District doing business as Pioneers Medical Center (the District) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2017 and 2016, 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 not presented 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 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.

Such information 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 financial statements as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
July 25, 2018

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Net Position
December 31, 2017 and 2016**

ASSETS	2017	2016
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,409,500	\$ 3,741,494
Investments	4,512,438	2,964,840
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$770,000 and \$722,000, respectively	3,099,226	2,151,863
Property tax levy	4,263,230	4,537,687
Electronic health records incentive payment	1,083,229	800,000
Estimated third-party payor settlements	1,102,000	873,000
340b contract pharmacy	144,000	79,301
Other	24,895	32,288
Inventories	478,907	545,871
Prepaid expenses	142,435	369,626
Total current assets	18,259,860	16,095,970
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted for debt service reserve	5,066,522	5,047,484
Investment in Western Healthcare Alliance	154,370	138,323
Capital assets, net	41,190,547	44,513,300
Total noncurrent assets	46,411,439	49,699,107
Total assets	\$ 64,671,299	\$ 65,795,077

See accompanying notes to basic financial statements.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Net Position (Continued)
December 31, 2017 and 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2017	2016
<i>Current liabilities</i>		
Accounts payable	\$ 1,078,955	\$ 834,399
Accrued compensation and related liabilities	733,995	1,044,057
Current maturities of long-term debt	1,896,557	1,825,950
Total current liabilities	3,709,507	3,704,406
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	25,601,876	27,667,599
Total liabilities	29,311,383	31,372,005
<i>Deferred inflows of resources, tax revenue</i>	4,263,230	4,537,687
<i>Net position</i>		
Net investment in capital assets	13,692,114	15,019,751
Restricted by creditor	5,066,522	5,047,484
Unrestricted	12,338,050	9,818,150
Total net position	31,096,686	29,885,385
Total liabilities, deferred inflows of resources, and net position	\$ 64,671,299	\$ 65,795,077

See accompanying notes to basic financial statements.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016**

	2017	2016
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$858,000 and \$602,000, respectively	\$ 19,164,881	\$ 17,655,099
Electronic health records incentive payment	283,229	29,250
Grants	69,150	83,078
Other revenue	118,454	166,739
Total operating revenues	19,635,714	17,934,166
<i>Operating expenses</i>		
Salaries and wages	8,000,135	7,421,290
Employee benefits	2,905,023	2,744,815
Professional fees and other purchased services	3,383,852	3,083,935
Supplies	1,746,405	1,664,231
Utilities	562,901	580,141
Depreciation	3,931,715	4,473,149
Insurance	131,344	151,060
Leases and rentals	10,434	9,137
Repairs and maintenance	662,367	499,557
Provider fees	196,121	295,815
Other	542,626	442,849
Total operating expenses	22,072,923	21,365,979
<i>Operating loss</i>	(2,437,209)	(3,431,813)
<i>Nonoperating revenues (expenses)</i>		
Property taxes	4,812,909	5,912,686
Demolition costs	-	(66,100)
Contributions	-	24,063
Tax collection expense	(232,309)	(287,793)
Investment income	113,154	46,831
Interest expense	(1,086,244)	(1,164,009)
Total nonoperating revenues (expenses), net	3,607,510	4,465,678
Excess of revenues before capital grants and contributions	1,170,301	1,033,865
<i>Capital grants and contributions</i>	41,000	95,128
Change in net position	1,211,301	1,128,993
Net position, beginning of year	29,885,385	28,756,392
Net position, end of year	\$ 31,096,686	\$ 29,885,385

See accompanying notes to basic financial statements.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Cash Flows
Years Ended December 31, 2017 and 2016**

	2017	2016
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 17,923,819	\$ 16,651,121
Grants	69,150	83,078
Electronic health records incentive payment (refund)	-	(153,750)
Other receipts	125,847	169,938
Payments to and on behalf of employees	(11,215,220)	(9,693,848)
Payments to suppliers and contractors	(6,697,339)	(6,557,534)
Net cash provided by operating activities	206,257	499,005
<i>Cash flows from noncapital financing activities</i>		
Property taxes	4,812,909	5,912,686
Payments for tax collection	(232,309)	(287,793)
Contributions received	-	24,063
Net cash provided by noncapital financing activities	4,580,600	5,648,956
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(1,995,116)	(1,920,839)
Purchase of capital assets	(608,962)	(1,040,862)
Interest paid on long-term debt	(1,086,244)	(1,164,009)
Capital grants and contributions	41,000	95,128
Net cash used in capital and related financing activities	(3,649,322)	(4,030,582)
<i>Cash flows from investing activities</i>		
Purchase of investments	(1,560,688)	(1,551,269)
Proceeds from sale of investments	-	2,769,924
Investment income	80,888	63,799
Distributions from Western Healthcare Alliance	29,309	-
Net cash provided by (used in) investing activities	(1,450,491)	1,282,454
Net increase (decrease) in cash and cash equivalents	(312,956)	3,399,833
Cash and cash equivalents, beginning of year	8,788,978	5,389,145
Cash and cash equivalents, end of year	\$ 8,476,022	\$ 8,788,978

See accompanying notes to basic financial statements.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016**

	2017	2016
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents in current assets	\$ 3,409,500	\$ 3,741,494
Cash and cash equivalents in noncurrent assets	5,066,522	5,047,484
Total cash and cash equivalents	\$ 8,476,022	\$ 8,788,978
<i>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</i>		
Operating loss	\$ (2,437,209)	\$ (3,431,813)
<i>Adjustments to reconcile operating loss to net cash provided by operating activities</i>		
Depreciation	3,931,715	4,473,149
Provision for bad debts	857,642	601,903
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(1,805,005)	(1,233,912)
Electronic health records incentive payment	(283,229)	(183,000)
Estimated third-party payor settlements	(229,000)	(273,000)
340b contract pharmacy	(64,699)	(79,301)
Other	7,393	3,199
Inventories	66,964	(222,526)
Prepaid expenses	227,191	(116,558)
Increase (decrease) in liabilities:		
Accounts payable	244,556	508,275
Accrued compensation and related liabilities	(310,062)	472,257
Estimated third-party payor settlements	-	(19,668)
Net cash provided by operating activities	\$ 206,257	\$ 499,005

See accompanying notes to basic financial statements.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements
Years Ended December 31, 2017 and 2016**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Eastern Rio Blanco County Health Service District doing business as Pioneers Medical Center (the District) is an independent governmental entity organized under provisions of the Colorado Revised Statutes. It operates within eastern Rio Blanco County (the County) but is not part of the County government. As organized, the District is exempt from paying federal income tax. The Board of Directors consists of seven elected residents of the County.

The District operates a licensed 10-bed hospital, 30-bed skilled nursing facility, rural health clinic, and a home health agency in Meeker, Colorado. The services provided include medical-surgical, pediatrics, surgery, emergency room, clinic, long-term care, and the related ancillary services (laboratory, imaging, cardiology, physical therapy, respiratory therapy, etc.).

b. Summary of Significant Accounting Policies

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

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

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

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

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.

Capital assets – The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least three years. Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses as incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method.

Useful lives are estimated as follows:

Land improvements	10 to 15 years
Buildings and improvements	5 to 40 years
Equipment	3 to 20 years

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

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

b. Summary of Significant Accounting Policies (continued)

Accrued compensated absences – Employees earn paid time off on regular hours actually worked at varying rates depending on years of service. The percentage of paid time off accrued ranges from 10 percent to 16 percent of the regular hours worked. Employees may accrue a maximum of 400 hours of paid time off. Amounts in excess of 200 hours may be redeemed for up to 40 hours. All paid time off is accrued and expensed when earned.

Net position – The 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*.

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 and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

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

Grants and contributions – From time to time, the District receives federal, state, and county 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. Grants that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Grants that are used to subsidize operating deficits are reported as nonoperating revenues. Contributions, except for capital contributions, are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

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

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements – In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires a government entity with legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when a liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event obligating a government entity to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The new guidance is effective for the District's year ending December 31, 2019, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In March 2017, the GASB issued Statement No. 85, *Omnibus*, which addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The new guidance is effective for the District's year ending December 31, 2018, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt as those requirements for when new debt is issued to provide for refunding. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. This statement also specifies the treatment of any remaining bond issuance costs on any extinguished debt. The new guidance is effective for the District's year ending December 31, 2018, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

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

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements (continued) – In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The new guidance is effective for the District's year ending December 31, 2020, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the District's year ending December 31, 2019, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

Subsequent events – Subsequent events have been reviewed through July 25, 2018, the date on which the financial statements were available to be issued.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

2. Bank Deposits and Investments:

Deposits:

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.

Investments:

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.

Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. The District's investment policy does not contain policy requirements that would limit the exposure to custodial credit risk for investments.

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District has a policy specifically requiring or limiting investments of this type.

Concentration of credit risk – Concentration of credit risk is the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District has a policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates could adversely affect an investment's fair value. The District has a policy specifically managing its exposure to fair value losses arising from changing interest rates.

The District's investments were in compliance with the state of Colorado's (the State) investment requirements for the years ended December 31, 2017 and 2016.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

2. Bank Deposits and Investments (continued):

Investments (continued):

The District's investments consisted of:

2017							S&P Ratings
	Fair Value	No Maturity	Investment Maturities in Years				
			Less than 1	1 to 5	Over 5		
Money market funds	\$ 1,776,210	\$ 1,776,210	\$ -	\$ -	\$ -		Not applicable
Freddie Mac bonds	1,487,361	-	-	1,487,361	-		AA+
Fannie Mae bonds	973,867	-	-	973,867	-		AA+
Real assets - mineral rights	275,000	275,000	-	-	-		Not applicable
	<u>\$ 4,512,438</u>	<u>\$ 2,051,210</u>	<u>\$ -</u>	<u>\$ 2,461,228</u>	<u>\$ -</u>		

2016							Investment Ratings
	Fair Value	No Maturity	Investment Maturities in Years				
			Less than 1	1 to 5	Over 5		
Money market funds	\$ 715,522	\$ 715,522	\$ -	\$ -	\$ -		Not applicable
Freddie Mac bonds	998,448	-	998,448	-	-		AA+
Fannie Mae bonds	975,870	-	-	975,870	-		AA+
Real assets - mineral rights	275,000	275,000	-	-	-		Not applicable
	<u>\$ 2,964,840</u>	<u>\$ 990,522</u>	<u>\$ 998,448</u>	<u>\$ 975,870</u>	<u>\$ -</u>		

Fair value measurements – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has the following recurring fair value measurements as of December 31, 2017:

- Money market funds are valued using quoted market prices (Level 1).
- Bonds are valued using observable inputs from similar investments (Level 2).
- Real assets, investments in mineral rights, are valued using discounted estimated future cash flows (Level 3).

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

3. Patient Accounts Receivable:

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

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

Patient accounts receivable reported as current assets, consisted of these amounts:

	2017	2016
Receivable from patients and their insurance carriers	\$ 2,100,005	\$ 1,860,803
Receivable from Medicare	1,528,194	990,533
Receivable from Medicaid	241,009	22,431
Total patient accounts receivable	3,869,208	2,873,767
Less allowance for uncollectible accounts	769,982	721,904
Patient accounts receivable, net	\$ 3,099,226	\$ 2,151,863

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

4. Capital Assets:

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

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 315,400	\$ -	\$ -	\$ -	\$ 315,400
Construction in progress	155,282	-	-	(155,282)	-
Total capital assets not being depreciated	470,682	-	-	(155,282)	315,400
<i>Capital assets being depreciated</i>					
Land improvements	8,824,754	7,054	-	-	8,831,808
Building and improvements	21,827,403	-	-	-	21,827,403
Equipment	23,316,997	601,908	-	155,282	24,074,187
Total capital assets being depreciated	53,969,154	608,962	-	155,282	54,733,398
<i>Less accumulated depreciation for</i>					
Land improvements	(1,134,778)	(733,463)	-	-	(1,868,241)
Building and improvements	(2,591,036)	(1,326,373)	-	-	(3,917,409)
Equipment	(6,200,722)	(1,871,879)	-	-	(8,072,601)
Total accumulated depreciation	(9,926,536)	(3,931,715)	-	-	(13,858,251)
Total capital assets being depreciated, net	44,042,618	(3,322,753)	-	155,282	40,875,147
Capital assets, net of accumulated depreciation	\$ 44,513,300	\$ (3,322,753)	\$ -	\$ -	\$ 41,190,547

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

4. Capital Assets (continued):

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Land	\$ 315,400	\$ -	\$ -	\$ -	\$ 315,400
Construction in progress	25,000	155,282	-	(25,000)	155,282
Total capital assets not being depreciated	340,400	155,282	-	(25,000)	470,682
<i>Capital assets being depreciated</i>					
Land improvements	8,827,492	-	(2,738)	-	8,824,754
Building and improvements	21,535,614	266,789	-	25,000	21,827,403
Equipment	22,871,356	445,641	-	-	23,316,997
Total capital assets being depreciated	53,234,462	712,430	(2,738)	25,000	53,969,154
<i>Less accumulated depreciation for</i>					
Land improvements	(395,132)	(739,646)	-	-	(1,134,778)
Building and improvements	(857,400)	(1,736,374)	2,738	-	(2,591,036)
Equipment	(4,203,593)	(1,997,129)	-	-	(6,200,722)
Total accumulated depreciation	(5,456,125)	(4,473,149)	2,738	-	(9,926,536)
Total capital assets being depreciated, net	47,778,337	(3,760,719)	-	25,000	44,042,618
Capital assets, net of accumulated depreciation	\$ 48,118,737	\$ (3,605,437)	\$ -	\$ -	\$ 44,513,300

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016

5. Long-term Debt:

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

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amounts Due Within One Year
<i>Long-term debt</i>	\$ 29,493,549	\$ -	\$ (1,995,116)	\$ 27,498,433	\$ 1,896,557

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due Within One Year
<i>Long-term debt</i>	\$ 31,414,388	\$ -	\$ (1,920,839)	\$ 29,493,549	\$ 1,825,950

The District has a lease purchase agreement in the original amount of \$35,000,000 with Zion's First National Bank. The lease purchase agreement is payable in monthly installments of \$256,780 including interest of 3.8 percent through November 2028. Western Alliance Bank and Bank of the San Juans have certificates of participation with Zion's National Bank of \$30,000,000 and \$5,000,000, respectively. Zion's First National Bank serves as the trustee. The lease purchase agreement includes financial covenants that must be complied with as a condition of the agreement.

Scheduled principal and interest repayments on the long-term debt are as follows:

Years Ending December 31,	Principal	Interest	Total
2018	\$ 1,896,557	\$ 928,154	\$ 2,824,711
2019	2,145,454	935,906	3,081,360
2020	2,228,416	852,944	3,081,360
2021	2,314,587	766,773	3,081,360
2022	2,404,087	677,271	3,081,358
2023-2027	13,488,910	1,917,890	15,406,800
2028	3,020,422	62,707	3,083,129
	\$ 27,498,433	\$ 6,141,645	\$ 33,640,078

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

6. 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 who 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 provision for bad debts and writeoffs has increased from the prior year as a significant amount of old accounts were written off prior to the implementation of the new computer system. The District has not changed its charity care or uninsured discount policies during fiscal years 2017 or 2016. 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:

	2017	2016
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 8,844,451	\$ 7,587,931
Medicaid	2,486,809	1,645,134
Other third-party payors	6,469,091	6,797,264
Patients	1,173,096	1,202,682
340b contract pharmacy	312,666	279,395
Supplemental payments	815,968	840,432
	20,102,081	18,352,838
Less:		
Charity care	79,558	95,836
Provision for bad debts	857,642	601,903
Net patient service revenue	\$ 19,164,881	\$ 17,655,099

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

6. Net Patient Service Revenue (continued):

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

- *Medicare* – The District has been designated a critical access hospital and the clinic a rural health clinic by Medicare. The District is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after the submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.
- *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 were paid on a cost basis through October 31, 2016, and subsequently on a prospective payment system. 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, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$51,000 and \$60,000 in the years ended December 31, 2017 and 2016, respectively, due to differences between original estimates and final settlements.

During the year ended December 31, 2017, the District received notice that their Medicaid rural health clinic rates were being updated to the higher of the prospectively determined rate or the cost per encounter as determined by the District's annual Medicare cost reports. Rate reconciliations are being conducted by the Colorado Department of Health Care Policy and Financing. As a result, Medicaid claims from 2010-2017 are being reprocessed, resulting in estimated additional reimbursement of approximately \$452,000. Net patient service revenue for the year ended December 31, 2017, increased by approximately \$396,000 due to changes in the original estimate of Medicaid rural health clinic revenue from 2010 through 2016.

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.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

6. Net Patient Service Revenue (continued):

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, 2017 and 2016, were approximately \$82,000 and \$96,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2017 and 2016.

7. Electronic Health Records Incentive Payment:

The District recognized Medicare electronic health records (EHR) incentive payments during the year ended December 31, 2017. The revenue recognized in 2017 represents the amount the District will receive from the final settlement of prior year EHR incentive payments. The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

8. Property Taxes:

The Rio Blanco County Treasurer acts as an agent to assess and collect property taxes levied in the County for all taxing authorities. Property taxes are levied and assessed 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 all may be paid by April 30. The assessed property is subject to lien on the levy date. 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, 2017 and 2016, for taxes levied for 2018 and 2017, respectively.

For 2017, the District's regular tax levy was \$7.280 per \$1,000 on a total assessed valuation of \$623,308,640, for a total regular levy of \$4,537,687. For 2016, the District's regular tax levy was \$7.280 per \$1,000 on a total assessed valuation of \$783,722,610, for a total regular levy of \$5,705,501.

The District paid \$232,309 and \$287,793 in 2017 and 2016, respectively, to the Rio Blanco County Treasurer for assessment and collection of the tax levy.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

9. Defined Contribution Plans:

The District sponsors a 401(a) defined contribution plan. The Eastern Rio Blanco County Health Service District 401(a) Plan (the 401(a) Plan) is mandatory for all eligible employees. Additionally, a 457 deferred compensation plan (the 457 Plan) is voluntary for all eligible participants who may defer a percentage of their compensation up to certain limits specified by the Internal Revenue Code. Participants are fully vested in their salary deferrals to the 457 Plan.

Under the 401(a) Plan, employees are required to contribute 6 percent of their gross income which the District matches 100 percent. The participants are eligible for the employer matching contributions immediately if they work a minimum of 24 hours per week and are either part-time or full-time status. The matching contributions are allocated to the participants' accounts in the Colorado County Officials & Employees Retirement Association (CCOERA). Participants are vested depending on the years of service, ranging from zero percent for the first year to fully vested in the sixth year.

CCOERA administers both the 457 Plan and the 401(a) Plan.

Participant contributions to the 457 Plan during the years ended December 31, 2017 and 2016, were approximately \$109,000 and \$121,000, respectively. Participant contributions to the 401(a) Plan during the years ended December 31, 2017 and 2016, were approximately \$453,000 and \$418,000, respectively. The District made matching contributions to the 401(a) Plan of approximately \$402,000 and \$383,000 during the years ended December 31, 2017 and 2016, respectively. Forfeitures of approximately \$52,000 and \$37,000, during the years ended December 31, 2017 and 2016, respectively, were used to reduce the District's contributions.

Benefit terms including contribution requirements are established and may be amended by the District. When a participant leaves employment prior to being fully vested, forfeitures are utilized against future employer contributions.

The District made all required funding payments during the year.

10. Commitment:

The District renewed a management contract with Quorum Health Resources, LLC (QHR) on May 30, 2017, for the management, administration, and operations of the District. The agreement calls for the District to pay QHR an annual base fee, with 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, 2023. Total payments to QHR during 2017 and 2016 were approximately \$313,000 and \$299,000, respectively. The District's future commitment to QHR for management fees is approximately \$1,876,000.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

11. Risk Management and Contingencies:

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

Medical malpractice claims – The District has professional liability insurance with COPIC Insurance Company (COPIC). 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, as well as past incidents that are reported during the current term. The malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has no deductible.

The District also purchases excess malpractice liability insurance through COPIC. COPIC provides protection on an “excess” basis whereby claims reported to the insurance carrier are only covered in excess of primary malpractice liability coverage. The COPIC excess liability limit is \$5,000,000 per claim with an annual aggregate limit of \$5,000,000. The policy has a \$10,000 deductible per claim.

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

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

Taxpayer’s Bill of Rights – Colorado voters passed an amendment to the state constitution, Article X, Section 20, known as the *Taxpayer’s Bill of Rights*. This amendment 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 this amendment. However, the District has made certain interpretations of the amendment’s language in order to determine its compliance.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2017 and 2016**

12. Concentration Risks:

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 mix of receivables from patients and third-party payors was as follows:

	2017	2016
Medicare	40 %	36 %
Medicaid	8	3
Other third-party payors	34	40
Patients	18	21
	100 %	100 %

Physicians – The District is dependent on local physicians and mid-level providers practicing in its service area to provide admission and utilize hospital services on an outpatient basis. A decrease in the number of providers or changes in their utilization patterns may have an adverse effect on hospital operations.

SUPPLEMENTAL INFORMATION

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Schedule of Budget and Actual Revenues and Expenses
Year Ended December 31, 2017

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<i>Operating revenues</i>			
Net patient service revenue	\$ 18,038,493	\$ 19,164,881	\$ 1,126,388
Grants	-	69,150	69,150
Other revenue	742,668	401,683	(340,985)
Total operating revenues	18,781,161	19,635,714	854,553
<i>Operating expenses</i>			
Salaries and wages	8,584,001	8,000,135	583,866
Employee benefits	3,128,271	2,905,023	223,248
Professional fees and other purchased services	2,077,425	3,383,852	(1,306,427)
Supplies	1,713,110	1,746,405	(33,295)
Utilities	671,854	562,901	108,953
Depreciation	4,566,912	3,931,715	635,197
Insurance	151,580	131,344	20,236
Leases, rentals, repairs, and maintenance	877,332	672,801	204,531
Other	689,700	738,747	(49,047)
Total operating expenses	22,460,185	22,072,923	387,262
<i>Operating loss</i>	(3,679,024)	(2,437,209)	1,241,815
<i>Nonoperating revenues (expenses)</i>			
Property taxes	4,705,687	4,812,909	107,222
Contributions	307,200	-	(307,200)
Tax collection expense	(235,283)	(232,309)	2,974
Investment income	48,400	113,154	64,754
Interest expense	(1,160,722)	(1,086,244)	74,478
Gain (loss) on sale of assets	24,000	-	(24,000)
Capital grants and contributions	-	41,000	41,000
Total nonoperating revenues (expenses), net	3,689,282	3,648,510	(40,772)
Change in net position	\$ 10,258	\$ 1,211,301	\$ 1,201,043

See accompanying independent auditors' report.