TELLURIDE HOSPITAL DISTRICT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2011 and 2010

CONTENTS

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Board of Directors
Telluride Hospital District

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities and the blended component units of Telluride Hospital District (the District) as of December 31, 2011 and 2010 and for the years then ended, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the blended component units of the District as of December 31, 2011 and 2010, and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 19 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The schedule of revenue, non-operating revenues, expenses, and non-operating expenses – departments is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of revenue, non-operating revenues, expenses, and non-operating expenses – departments is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.

June 1, 2012

TELLURIDE HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2011

Telluride Hospital District (the District), dba Telluride Medical Center (TMC) operates two healthcare business units 1) a Trauma & Emergency Services Department offering a full service Level V Trauma Center providing emergency care twenty four hours a day seven days a week and 2) a Primary Care Department that is a multi-specialty medical practice with two doctors, two mid-level providers and visiting specialists.

The Telluride Medical Center has two affiliated organizations: the TMC Foundation (TMCF), a charitable fundraising organization, and IFAM, the Institute for Altitude Medicine, an altitude medicine charitable research organization. These organizations operate separately and are included in the financial statements as component units of the District.

The Telluride Medical Center is governed by a five member Board of Directors elected by the voters within a Special District established under Colorado law (the Telluride Hospital District).

Financial Overview

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are mainly comprised of four components:

- The Statements of Net Assets provides information about the District's assets and liabilities and reflects the District's financial position as of December 31, 2011 and 2010.
- The Statements of Revenue, Expenses and Changes in Net Assets reports the cumulative activity of providing healthcare services and the expenses related to such activity for the years ended December 31, 2011 and 2010.
- The Statements of Cash Flows outlines the cash inflows and outflows related to the activity of providing healthcare services for the years ended December 31, 2011 and 2010.
- The Notes to Financial Statements provide explanation and clarification on specific items within the previously mentioned financial statements and should be read in their entirety.

This report also contains other supplemental information in addition to the basic financial statements themselves.

1. Statement of Net Assets

Financial Analysis

The District's total assets at the end of the 2011 calendar year were $6,996,094 as compared to $6,929,925 at the end of the 2010 calendar year. The $66,169 increase reflects an increase in cash of $602,463 offset by multiple decreases in receivables including Ad valorem taxes of $206,148, Capital assets of $206,635 related to Depreciation and Due from affiliates of $84,532 plus a decrease in Prepaid expenses of $24,114. The increase in cash relates to controlling costs and deliberate reductions where possible in anticipation of reduced Ad valorem tax revenue effective 2012 as well as successful grant funding and fundraising efforts by TMCF.

At December 31, 2011, assets consisted primarily of net capital assets of $2,377,845, total cash of $2,085,218, current year mil levy receivable of $1,860,323, and net patient accounts receivable of $469,938.

Comparable asset balances at December 31, 2010 were as follows: net capital assets of $2,584,480, prior year mil levy receivable of $2,066,471, total cash of $1,482,755, and net patient accounts receivable of $484,178.

The District's total liabilities at December 31, 2011 were $2,543,560 consisting of deferred revenue of $1,856,634, accrued liabilities of $490,096, and accounts payables of $132,670. The decrease of $272,605 mainly reflects the decrease in Deferred revenue - Ad valorem taxes. The District does not have any debt nor any estimated liability for potential losses.

Comparable liability balances at December 31, 2010 were as follows: total liabilities of $2,816,165 consisting of deferred revenue of $2,062,363, accrued liabilities of $393,347, accounts payable of $210,274.

2. Statements of Revenue, Expenses and Changes in Net Assets

Patient Service Revenues

The District's Net Patient Service Revenue is divided between revenues from its 24-hour emergency service (59%) and revenues from its primary care clinic (41%). However, the emergency service accounts for only 25% of the patient encounters while the primary care accounts for 75%. Eighty-six percent (86%) of the District's patient charges are billable to insurance companies and 14% of charges are considered self pay or without insurance. Because payments for services rendered to patients under insurance programs are less than billed charges, the District estimates a provision for contractual adjustments to reduce the total charges to these patients to estimated receipts, based upon either the program's principles or the contractual arrangements. Due to the complicated nature of claim adjudication, the payments received could differ from the provision.

The District's revenues are classified as Operating and Non-Operating Revenues. Operating Revenues consist of Net Patient Service Revenues which decreased between the calendar years 2011 and 2010 by 2%. Net Patient Service Revenue for the 2011 calendar year was reported as $3,476,112 compared to the 2010 calendar year Net Patient Revenue of $3,579,891. Patient visits increased slightly during 2011 but there was an increase in patients accessing free care which effectively decreased revenue.

TMCF had a successful year with fund raising of $259,064 in 2011 compared to $230,757 in 2010. TMCF received three grants in 2011 totaling $308,077 of which all funds were dispersed per the program. IFAM Contributions and Grants were minimal in 2011 due to both the economy and a planned reduction in fundraising.

Total Non-Operating Revenues for the 2011 calendar year ended at $2,591,533, compared to the Non-Operating Revenues in 2010 of $2,508,295. Non-Operating Revenues is comprised of Ad valorem taxes, Contributions and Grants, Interest Income and Other Non-Operating Revenues. Ad valorem taxes are the biggest contributor to non-operating revenue and had a slight increase over 2010. Contributions and grants increased in 2011 related to the award of three separate federal grants. The District received $461,558 in contributions and grants in 2011 as compared to $400,895 in 2010.

The major expenses incurred by the District during the 2011 calendar year were Compensation, Contract Services and Employee Benefits of $2,360,615, $1,052,722 and $549,177, respectively; Professional and consulting fees of $361,199; Materials and Supplies of $273,761; and Depreciation and amortization of $240,751. Physician expenses are included in both Compensation and Contract Services.

The District's net assets at the end of the 2011 calendar year were $4,452,534 as compared to $4,113,760 at the end of the 2010 calendar year. The year progressed with better than anticipated revenues and expenses. The success of the TMCF also attributed to the increase in net assets.

Provision for Doubtful Accounts
The collection of receivables from patients and third party payers is the District's primary source of cash and is therefore, critical to the District's operating performance.

During the 2011 calendar year, the primary collection risks relate to the uninsured patient, and to aged insurance claims. The District estimated the Provisions for Doubtful Accounts based upon previous experience.

Significant changes in payer mix, District operations, economic conditions and trends in federal and state governmental health care coverage affect the District's collection of accounts receivable, cash flows, and results of operation. The provision for doubtful accounts for the 2011 calendar year was $128,181 and fully reserves all self-pay balances over 120 days old. The calendar year 2010 provision was $180,427. Another factor in the 2011 decreased provision for doubtful accounts was the decrease in days in accounts receivable.

3. Cash Flow Statements

Liquidity and Capital Resources
The District's cash flows from operations and Ad valorem taxes provide the primary sources of funding for the District's ongoing cash needs.

The following is a summary of cash flows for the calendar years ended on December 31:

Cash Flows	2011	2010
Operating Activities	$ (1,487,716)	$ (1,138,017)
Non-Capital Financing Activity	2,124,377	2,335,260
Capital & Related Financing Activity	(46,177)	(904,800)
Investing Activities	11,979	12,239
Net Increase/(Decrease) in Cash	$ 602,463	$ 304,682

The District's cash flows from operations reflect the positive impact of better than anticipated collections.

Non-capital financing relates to Ad valorem taxes, and non-operating revenues and expenses. There was a decrease in 2011 non-capital financing cash flow due to substantial contributions and grants related to the remodel in 2010.

The capital and related financing decreases are due to the considerable leasehold improvements made during 2010.

The $602,463 increase of cash is the result of successful grant writing as well favorable operating results.

Budgetary Highlights

The District is responsible for funding expenses from cash generated through its operations and from the Ad valorem taxes received during the calendar year. The District prepares a budget to reflect the expected revenues and expenses generated through its operations. The District's Board of Directors approved an amended 2011 budget during the last quarter of the 2011 calendar year.

Economic and Other Factors

The days in accounts receivable ratio (DAR) at year end yielded 34 and 64 days in the primary care and emergency department business units, respectively. The healthy accounts receivable ratio is largely due to

staffing dedicated to working the self-pay accounts receivable. The primary care and emergency department DAR at year ended 2010 was 37 and 62, respectively. A distinctive issue for the District is the number of patient visitors from out of state presenting a non-participating insurance. Each insurance company has unique requirements for claim submission which most times require individual handling. During 2011, the District filed insurance claims with 1,527 different insurance packages of which 51% were non-participating and represented 25% of the total patient revenue.

The day's cash on hand ratio at December 31, 2011 was 106 days versus day's cash on hand in December 2010 of 85 days. The increase is linked to successful grant writing and fundraising, and a deliberate reduction in spending anticipating a decreased mil levy in the future. Management will continue to monitor this ratio to ensure that adequate cash reserves are available.

A number of major factors affect the ongoing financial situation of the District. They are a combination of healthcare legislation, significant revenue cycle adjustments, the cost of living in a resort community impacting the District's ability to retain qualified staff and remain the premier provider of healthcare in the region.

The table below reflects the reductions in revenue related to the Care Support program over the last three years.

Charity Care	2011	2010	2009
Emergency Department	$ 105,111	$ 84,057	$ 120,972
Primary Care Department	77,736	60,077	86,854
Charity Care Funded by Grants in addition to amounts expended by the District	-		14,092
Total Charity Care	$ 182,847	$ 144,134	$ 221,918

Contacting the District's Financial Management

This management discussion and analysis report is designed to provide interested parties with a general overview of the District's financial activity for the 2011 calendar year and to demonstrate the District's accountability for the money it received for providing healthcare services to members of this community and others. If you have questions about this report or need additional information, please contact Telluride Hospital District's Financial Director, 500 West Pacific Avenue, Telluride, CO 81435.

TELLURIDE HOSPITAL DISTRICT

STATEMENTS OF NET ASSETS

December 31, 2011 and 2010

	2011				2010
	THD *	IFAM **	TMCF ***	**Total**	Total
ASSETS					
Current Assets					
Cash and cash equivalents	$ 1,748,164	$ 6,622	$ 330,432	**$ 2,085,218**	$ 1,482,755
Accounts receivable from patient services, net of estimated uncollectibles of $285,873 (2011) and $342,236 (2010)	424,392	1,563	43,983	**469,938**	484,178
Other receivables	10,350	-	-	**10,350**	3,809
Ad valorem taxes receivable	1,860,323	-	-	**1,860,323**	2,066,471
Due from affiliates	64,533	-	-	**64,533**	149,065
Inventory	86,376	-	-	**86,376**	93,542
Other current assets	41,069	442	-	**41,511**	65,625
Total Current Assets	4,235,207	8,627	374,415	**4,618,249**	4,345,445
Capital Assets, net	2,348,732	29,113	-	**2,377,845**	2,584,480
Total Assets	$ 6,583,939	$ 37,740	$ 374,415	**$ 6,996,094**	$ 6,929,925
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable	$ 121,553	$ -	$ 11,117	**$ 132,670**	$ 210,274
Due to affiliates	-	-	64,160	**64,160**	150,181
Accrued compensation and employee benefits	398,160	-	-	**398,160**	324,983
Other accrued liabilities	89,656	2,280	-	**91,936**	68,364
Deferred revenue - ad valorem taxes	1,856,634	-	-	**1,856,634**	2,062,363
Total Current Liabilities	2,466,003	2,280	75,277	**2,543,560**	2,816,165
Total Liabilities	2,466,003	2,280	75,277	**2,543,560**	2,816,165
Net Assets					
Invested in capital assets, net of related debt	2,348,732	29,113	-	**2,377,845**	2,584,480
Unrestricted net assets					
Unrestricted	1,644,204	2,427	299,138	**1,945,769**	1,389,280
Board designated	-	-	-	**-**	-
Net assets donor restricted	125,000	3,920	-	**128,920**	140,000
Total Net Assets	4,117,936	35,460	299,138	**4,452,534**	4,113,760
Total Liabilities and Net Assets	$ 6,583,939	$ 37,740	$ 374,415	**$ 6,996,094**	$ 6,929,925

* Telluride Hospital District - See Note 1

** Institute for Altitude Medicine - See Note 1 and Note 11

*** Telluride Medical Center Foundation - See Note 1 and Note 12

See accompanying notes.

TELLURIDE HOSPITAL DISTRICT

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

For the years ended December 31, 2011 and 2010

	2011				2010
	THD	IFAM	TMCF	**Total**	Total
Operating Revenues					
Net patient service revenue	$ 3,449,504	$ 26,608	$ -	**$ 3,476,112**	$ 3,579,891
Event income	-	-	259,064	**259,064**	230,757
Other revenue	25,950	524	-	**26,474**	138,187
Total Operating Revenues	3,475,454	27,132	259,064	**3,761,650**	3,948,835
Operating Expenses					
Compensation	2,246,062	29,678	84,875	**2,360,615**	2,354,966
Contract services	1,049,992	2,730	-	**1,052,722**	1,014,250
Employee benefits	513,876	13,454	21,847	**549,177**	510,628
Event expense	-	-	11,058	**11,058**	122,554
Professional and consulting fees	344,898	4,301	12,000	**361,199**	312,133
Other operating expenses	195,809	1,149	20,781	**217,739**	208,411
Materials and supplies	268,471	2,191	3,099	**273,761**	244,109
Depreciation and amortization	235,958	4,793	-	**240,751**	200,113
IT, equipment, and service contracts	210,243	3,281	-	**213,524**	244,313
Building and facilities	112,595	4,800	-	**117,395**	117,411
Utilities and support services	69,506	127	2,085	**71,718**	66,576
Insurance	45,976	5,969	1,017	**52,962**	49,789
Travel and entertainment	-	159	12,257	**12,416**	-
Research and development	-	25,254	-	**25,254**	-
Interest and loan fees	11	-	-	**11**	87
Total Operating Expenses	5,293,397	97,886	169,019	**5,560,302**	5,445,340
Income (Loss) From Operations	(1,817,943)	(70,754)	90,045	**(1,798,652)**	(1,496,505)
Non-operating Revenues					
Ad valorem taxes	2,104,883	-	-	**2,104,883**	2,082,674
Contributions and grants	124,937	28,544	308,077	**461,558**	400,895
Interest income	11,436	-	543	**11,979**	12,239
Other non-operating revenues	13,113	-	-	**13,113**	12,487
Total Non-operating Revenues	2,254,369	28,544	308,620	**2,591,533**	2,508,295
Non-operating Expenses					
Distribution to TMCF	102,345	-	-	**102,345**	100,507
Distribution to IFAM	4,800	-	-	**4,800**	4,800
Loss on disposal of plant	12,061	-	-	**12,061**	-
Other non-operating expenses	26,824	-	308,077	**334,901**	56,605
Total Non-operating Expenses	146,030	-	308,077	**454,107**	161,912
Total Non-operating Revenues, net	2,108,339	28,544	543	**2,137,426**	2,346,383
Increase (Decrease) in Net Assets	290,396	(42,210)	90,588	**338,774**	849,878
Net Assets - beginning of the year	3,827,540	77,670	208,550	**4,113,760**	3,263,882
Net Assets - end of the year	$ 4,117,936	$ 35,460	$ 299,138	**$ 4,452,534**	$ 4,113,760

See accompanying notes.

TELLURIDE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

	2011				2010
	THD	IFAM	TMCF	**Total**	Total
Cash Flows From Operating Activities					
Cash received from patients and third-party payors	$ 3,488,858	$ 27,880	$ -	**$ 3,516,738**	$ 3,606,223
Cash received from other operating activities	19,364	569	232,678	**252,611**	350,672
Cash paid to suppliers and others	(1,265,768)	(25,116)	(158,312)	**(1,449,196)**	(1,357,731)
Cash paid to employees for services	(3,735,324)	(72,545)	-	**(3,807,869)**	(3,737,181)
Net Cash Provided (Used) by Operating Activities	(1,492,870)	(69,212)	74,366	**(1,487,716)**	(1,138,017)
Cash Flows From Non-capital Financing Activities					
Ad valorem taxes - Emergency Medical Center	2,105,302	-	-	**2,105,302**	2,082,674
Change in due to/from affiliate, net	84,532	(1,116)	(84,905)	**(1,489)**	1,116
Non-operating revenues	138,050	28,544	-	**166,594**	413,382
Non-operating expenses	(146,030)	-	-	**(146,030)**	(161,912)
Net Cash Provided (Used) by Non-capital Financing Activities	2,181,854	27,428	(84,905)	**2,124,377**	2,335,260
Cash Flows From Capital and Related Financing Activities					
Acquisition of property and equipment	(46,177)	-	-	**(46,177)**	(901,967)
Principal payments on long-term debt	-	-	-	**-**	(2,833)
Net Cash Used for Capital and Related Financing Activities	(46,177)	-	-	**(46,177)**	(904,800)
Cash Flows From Investing Activities					
Interest income received	11,436	-	543	**11,979**	12,239
Net Cash Provided by Investing Activities	11,436	-	543	**11,979**	12,239
Increase (Decrease) in Cash and Cash Equivalents	654,243	(41,784)	(9,996)	**602,463**	304,682
Cash and Cash Equivalents - beginning of the year	1,093,921	48,406	340,428	**1,482,755**	1,178,073
Cash and Cash Equivalents - end of the year	$ 1,748,164	$ 6,622	$ 330,432	**$ 2,085,218**	$ 1,482,755

See accompanying notes.

TELLURIDE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2011 and 2010

	2011				2010
	THD	IFAM	TMCF	**Total**	Total
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:					
Income (loss) from operations	$ (1,817,943)	$ (70,595)	$ 90,045	**$ (1,798,493)**	$ (1,496,505)
Adjustments to reconcile operating loss to net cash used for operating activities:					
Provision for uncollectible accounts	231,282	(14,193)	-	**217,089**	226,033
Depreciation and amortization	235,958	4,793	-	**240,751**	200,113
Loss on disposal of plant	12,061	-	-	**12,061**	-
Changes in:					
Patient accounts receivable	(191,928)	15,465	(26,386)	**(202,849)**	(217,298)
Other receivables	(6,586)	45	-	**(6,541)**	(675)
Inventory	7,165	-	-	**7,165**	3,019
Other current assets	24,288	(426)	250	**24,112**	13,793
Accounts payable and accrued liabilities	12,833	(4,142)	10,457	**19,148**	133,503
Net Cash Provided (Used) by Operating Activities	$ (1,492,870)	$ (69,053)	$ 74,366	**$ (1,487,557)**	$ (1,138,017)

See accompanying notes.

NOTE 1 - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Telluride Hospital District (the District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental financial reporting principles. The following is a summary of the District's significant accounting policies:

Financial Reporting Entity - The District was established in 1983 to operate and maintain a community health clinic and emergency center for the diagnosis and treatment of individuals requiring outpatient services and emergency care in the community and surrounding area of Telluride, Colorado.

The primary purpose of the District is to enhance and promote local health care by providing primary and emergency medical services, which includes establishing and operating a primary care medical center, TMC – Primary Care Enterprise and a 24-hour emergency medical care center, the Telluride Medical Center (TMC). In addition to its primary purpose, the District supports community health care through ongoing review and assessment of regional health care needs and cooperation with local, regional, state, and federal health care initiatives.

The financial statements of the District include all of the integral parts of the District's operations. To conform to GAAP as applicable to governments, criteria was considered to determine whether any organization should be included in the District's reporting entity. Based on these considerations, it was determined that the Institute For Altitude Medicine (IFAM), a separate legal entity, and the Telluride Medical Center Foundation (TMCF) meet the criteria to be included in the District's financial statements as blended component units. Additional financial information pertaining to the IFAM may be obtained from Institute For Altitude Medicine, P.O. Box 1229, Telluride, CO, 81435 (see Note 11). Additional financial information pertaining to the TMCF may be obtained from Telluride Medical Center Foundation, P.O. Box 1229, Telluride, CO, 81435 (see Note 12).

Accounting Standards - Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the District has elected to apply the provisions of GASB pronouncements and all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989, that do not conflict with or contradict those of GASB.

Risk Management - The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health 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 five preceding years (see Note 10 for discussion of coverage related to medical malpractice claims).

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents may include investments in highly liquid debt instruments with an original maturity of three months or less. The Board of Directors has designated assets required to meet capital expenditures. These designated assets are included in cash and cash equivalents. There were no additional Board designations in 2011 and 2010.

Patient Receivables - Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Ad Valorem Taxes - As of December 31, 2011 and 2010, the District's mill levy consisted of general operating expenses and a special levy for emergency medical care. Taxes assessed in one year become due and payable on January 1 of the following year and are due in one installment on April 30 or in two installments on February 28 and June 15 of each year. Property taxes levied in the current year and payable in the following year are reported as a receivable at December 31, net of an estimated uncollectible portion. The deferred taxes are reported as revenue in the year they are collected and available.

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

Capital Assets - Property and equipment are recorded at cost, or if donated, at fair market value at the date of receipt.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Assets under capital leases are depreciated or amortized on the straight-line method over the estimated useful life of the asset.

Net Assets - Net assets are presented in the following components:

Net assets invested in capital assets, net of related debt - Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding debt used to finance the purchase or construction of those assets.

Unrestricted net assets - Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

Net assets donor restricted - Net assets donor restricted are used to differentiate resources, the uses of which are specified by donors or grantors, from resources of unrestricted net assets on which donors or grantors place no restrictions or that arise as a result of the District operating for its stated purposes. Donor restrictions for specific purposes are reported in other operating revenue to the extent used within the period. Net assets restricted by donors for plant replacement and expansion are added to the unrestricted net assets balance when expended.

Accrued Compensated Absences - The District accrues paid time-off in the period the related liability vests with the respective employee. Paid time-off is granted to all full-time employees and is vested based on years of service.

Net Patient Service Revenue - The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Financial Hardship - The District provides care to patients who meet certain criteria under its financial hardship policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as financial hardship, they are not reported as revenue.

In-Kind Contributions - The District, specifically TMCF and IFAM, receives in-kind contributions to be used towards salaries and rent expense, respectively. Donated rent is recorded at its estimated value at the date of receipt.

Income Taxes - As an essential government function of San Miguel County, the District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The District is no longer subject to U.S. Federal or state income tax examinations by tax authorities for years before 2007.

Reclassifications - Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the results of operations.

NOTE 2 - BUDGETS

The District adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

A. Budgets are required by state law.

B. Public hearings are conducted by the District to obtain taxpayer comments.

C. Prior to December 31, the budget is adopted and appropriations are made by formal resolution.

D. Expenditures may not legally exceed appropriations. Board of Directors approval is required for changes in the budget. Budget amounts included in the financial statements are based on the final, legally amended budget. The District's original budgeted expenditures were $5,750,683 and the final budgeted expenditures were $5,586,057 for the year ended December 31, 2011.

E. Budget appropriations lapse at the end of each year.

F. The District adopts budgets that include all financing sources and uses. The following is a budgetary comparison and a summary of the adjustments necessary to convert to the budgetary basis from GAAP used in presentation of the statements of revenue and expenses - unrestricted funds for the year ended December 31, 2011:

	Actual	Budget	Variance - Favorable (Unfavorable)
Revenue:			
GAAP-based revenue	$ 3,475,454	$ 3,371,833	$ 103,621
GAAP-based non-operating revenue	2,254,369	2,161,575	92,794
Total Budgetary Revenue	$ 5,729,823	$ 5,533,408	$ 196,415
Expenses:			
GAAP-based expenses	$ 5,293,397	$ 5,476,557	$ 183,160
GAAP-based non-operating expenses	146,030	9,500	(136,530)
Adjustments:			
Capital outlay	46,177	100,000	53,823
Total Budgetary Expenses	$ 5,485,604	$ 5,586,057	$ 100,453

NOTE 3 - TAX, SPENDING, AND DEBT LIMITATIONS

Effective January 1, 2003, the District adopted a resolution that formalized the establishment of the TMC – Primary Care Enterprise as an enterprise under Article X, Section 20 of the Colorado Constitution, as amended (the TABOR amendment), which has several limitations including revenue raising, spending abilities, and other specific requirements of state and local governments. The TABOR 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 TABOR amendment's language in order to determine its compliance. As stipulated in a resolution adopted by the District dated December 11, 2002, pursuant to and in accordance with the TABOR amendment, the TMC – Primary Care Enterprise shall be excluded from the provisions of the TABOR amendment.

NOTE 4 - CASH AND CASH EQUIVALENTS

The District adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, effective December 31, 2005. This Statement establishes and modifies disclosure requirements related to investment credit risk, including custodial credit risk and concentrations of credit risk, interest rate risk and foreign currency risk, as well as deposit custodial credit risk and foreign currency risk.

Deposits

The Colorado Public Deposit Protection Act (PDPA) governs the District's cash deposits. The statutes specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets, to be maintained by another institution or held in trust for all of its local government depositors as a group, with a market value equal to at least 102% of the uninsured deposits. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and the reporting of uninsured deposits and assets maintained in the collateral pools.

Investments

Colorado statutes define eligible investments for local governments. These include bonds and other interest-bearing obligations of or guaranteed by the United States government or its agencies, bonds which are direct obligations of the State of Colorado or any of its political subdivisions, repurchase agreements, commercial paper, guaranteed investment contracts and local government investment pools. The District had no investments as of December 31, 2011 and 2010.

The District had bank balances at December 31 as follows:

	2011	2010
Insured (FDIC) or collateralized with securities held by the District	$ 528,093	$ 670,606
Collateralized by securities held by the pledging financial institution in other than the District's name	1,503,713	877,736
Total	$ 2,031,806	$ 1,548,342
Carrying Value	$ 2,085,218	$ 1,482,755

NOTE 5 - CAPITAL ASSETS

Property and equipment activities for the years ended December 31 were as follows:

2011

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Building improvements	$ 2,470,698	$ -	$ 13,533	$ -	$ 2,457,165
Medical equipment	1,105,179	27,632	16,934	-	1,115,877
Furniture and fixtures	65,614	-	-	-	65,614
Administrative equipment	220,751	18,546	26,725	-	212,572
Software	8,996	-	8,996	-	-
Total Cost	3,871,238	46,178	66,188	-	3,851,228
Less accumulated depreciation and amortization:					
Building improvements	466,945	88,083	1,628	-	553,400
Medical equipment	596,555	123,376	16,778	-	703,153
Furniture and fixtures	56,107	2,394	-	-	58,501
Administrative equipment	158,155	26,899	26,725	-	158,329
Software	8,996	-	8,996	-	-
Total Accumulated Depreciation and Amortization	1,286,758	240,752	54,127	-	1,473,383
Capital assets, net	$ 2,584,480	$ (194,574)	$ 12,061	$ -	$ 2,377,845

2010

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Building improvements	$ 1,610,896	$ -	$ -	$ 859,802	$ 2,470,698
Medical equipment	1,033,190	6,937	-	65,052	1,105,179
Furniture and fixtures	65,614	-	-	-	65,614
Administrative equipment	220,751	-	-	-	220,751
Software	8,996	-	-	-	8,996
Construction in process	29,824	895,030	-	(924,854)	-
Total Cost	2,969,271	901,967	-	-	3,871,238
Less accumulated depreciation and amortization:					
Building improvements	414,212	52,733	-	-	466,945
Medical equipment	478,104	118,451	-	-	596,555
Furniture and fixtures	53,713	2,394	-	-	56,107
Administrative equipment	131,620	26,535	-	-	158,155
Software	8,996	-	-	-	8,996
Total Accumulated Depreciation and Amortization	1,086,645	200,113	-	-	1,286,758
Capital assets, net	$ 1,882,626	$ 701,854	$ -	$ -	$ 2,584,480

NOTE 6 - EMPLOYEE BENEFITS

Retirement Plan - The District has a deferred compensation plan (the Plan) through annuity contracts with Colorado County Officials and Employees Retirement Association (CCOERA) in accordance with Section 457(b) of the Internal Revenue Code (IRC). The Plan allows participating employees to defer a portion of their compensation for retirement purposes. The deferred compensation is invested for the participants by the District under the agreements in the Plan. Under provisions of the IRC, all Plan assets are considered to be the property of the eligible participants and are, therefore, not considered to be assets of the District.

The District has offered a 401(a) Plan (the Plan) through CCOERA. Under terms of the Plan, all employees who have completed one year of service are eligible to participate. Participants may defer a portion of their compensation up to specified limits according to the IRC. The District will match 3% of the participants' contributions for a Plan month. For the years ended December 31, the District contributed $58,566 (2011) and $53,678 (2010) to the Plan.

Accrued Compensated Absences - The District's program pays for paid time-off (PTO) earned by regular, full-time employees. An employee may maintain a maximum of 300 PTO hours. Upon reaching 300 PTO hours, no additional time will accrue in an employee's PTO bank. At December 31, accrued PTO was $165,183 (2011) and $147,336 (2010).

NOTE 7 - LINE OF CREDIT

On December 28, 2011, the District renewed its line of credit ($400,000) with an interest rate of 0.025 percentage points over prime rate, with a 5% floor (5.0% at December 31, 2011 and 2010). This agreement has a maturity date of January 1, 2013. The line is collateralized by accounts receivable, inventory and equipment. As of December 31, 2011 and 2010, there were no draws on the line of credit.

NOTE 8 - LEASE OBLIGATIONS

The District leased certain equipment. For financial reporting purposes, minimum lease rentals relating to the equipment have been capitalized. The related assets and obligations have been recorded using the District's incremental borrowing rate at the inception of the leases. Amortization expense associated with capital leases has been included in depreciation expense. The capital lease related to the equipment matured in July 2010.

The following is a schedule of leased property under capital leases for the years ended December 31:

	2011	2010
CBC Hematology Machine	$ -	$ 15,625
Less accumulated depreciation	-	(15,625)
	$ -	$ -

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

The District is located in Telluride, Colorado and grants credit without collateral to its patients, who are local residents of, and visitors to, the San Miguel County, Colorado area. Most patients are insured under third-party payor agreements.

Receivables from patients and third-party payors were as follows at December 31:

	2011	2010
Other third-party payors	57.7%	56.7%
Patient self-pay	34.2%	37.7%
Medicare	4.5%	4.1%
Medicaid	3.6%	1.5%

A summary of net patient service revenue for the years ended December 31 was as follows:

	2011	2010
Patient service revenue		
Emergency care	$ 2,869,380	$ 3,029,923
Community clinic	2,380,263	2,289,989
IFAM	40,801	59,339
Gross Patient Service Revenue	5,290,444	5,379,251
Financial hardship	(182,847)	(144,134)
Gross Patient Service Revenue, Net of Financial Hardship	5,107,597	5,235,117
Contractual and other adjustments	(1,631,485)	(1,655,226)
Net Patient Service Revenue	$ 3,476,112	$ 3,579,891

NOTE 10 - CONTINGENCIES

Malpractice Insurance - The District purchases professional and general liability insurance coverage to cover medical malpractice claims. These are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. This insurance coverage is on a "claims-made" basis.

The District's management, using information provided by its insurance carrier, has determined that the estimated liability for potential losses incurred, but not reported at December 31, 2011 and 2010, is not material to the accompanying financial statements. Accordingly, no provision for such losses has been accrued.

Litigation - The District is, at times, involved in litigation arising in the normal course of business. Management has consulted with legal counsel and estimates that these matters will be resolved without a material impact on the operations or financial position of the District.

NOTE 11 - INSTITUTE FOR ALTITUDE MEDICINE

The Institute for Altitude Medicine (IFAM) was founded during 2007 to provide clinical care and consultation, conduct research and develop educational programs to optimize health as well as treat medical issues affecting people who either live at, or travel to, high altitude. IFAM is a not-for-profit, organized under section 501(c)(3) of the Internal Revenue Code.

IFAM received a gift in-kind from the District for the years ended December 31, 2011 and 2010 in the form of rent. The cost of office facilities, which are used by IFAM in connection with operations, is not reflected in IFAM in the statement of net assets because asset title remains with the District. IFAM has reported contribution revenue and program expense amounting to $4,800 in the accompanying statement of revenue, expenses and changes in net assets for the free use of the facilities during the years ended December 31, 2011 and 2010.

As of December 31, IFAM had a payable to the District of $0 (2011) and $1,116 (2010).

NOTE 12 - TELLURIDE MEDICAL CENTER FOUNDATION

During 2009, the Telluride Medical Center Foundation (TMCF) was formed exclusively for charitable purposes for the benefit of the District. TMCF is a not-for-profit, organized under section 501(c)(3) of the Internal Revenue Code.

As of December 31, TMCF had a payable to the District of $64,160 (2011) and $149,065 (2010).

As of December 31, TMCF had $311,143 (2011) and $484,424 (2010) of contribution and donation income, of which $102,345 (2011) and $100,507 (2010) was an in-kind donation from the District.

During 2011, TMCF was awarded three grants. The first, the Carol M. White Physical Education Program (PEP) provides grants to community-based organizations to initiate, expand, or enhance physical education programs, including after-school programs, for students in kindergarten through 12th grade. Revenue for 2011 related to the PEP grant was $152,519. For the year ended December 31, 2011, all monies received were spent in 2011.

TMCF was awarded two opportunities under CFDA#93.912, The Rural Health Network Development Planning Grant Program (RHNDP) is to expand access to, coordinate and improve the quality of essential health care services and enhance the delivery of health care, in rural areas. And, the Small Health Care Provider Quality Improvement Program to support rural public, rural non-profit, or other providers of healthcare services, such as a critical access hospital or rural health clinic. Revenue for 2011 related to the two RHNDP grants was $155,558. For the year ended December 31, 2011, all monies received were spent in 2011.

NOTE 13 - FINANCIAL HARDSHIP

The District provides care to patients who meet certain criteria under its financial hardship policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as financial hardship, they are not reported as revenue.

The District determines the costs associated with financial hardships by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, medical equipment and supplies, pharmacy, and other operating expenses, based on data from its costing system. Financial hardship costs for the years ended December 31, 2011 and 2010 were $182,847 and $144,134, respectively.

NOTE 14 - SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 1, 2012, the date at which the financial statements were available to be issued, and determined that no events have occurred that required disclosure.

REQUIRED SUPPLEMENTAL INFORMATION

TELLURIDE HOSPITAL DISTRICT

SCHEDULE OF REVENUE, NON-OPERATING REVENUES, EXPENSES
AND NON-OPERATING EXPENSES - BUDGET AND ACTUAL

For the year ended December 31, 2011

	Budgeted Amounts			
	Original	Final	THD Actual	Favorable (Unfavorable) Variance
Operating Revenues				
Net patient service revenue	$ 3,502,046	$ 3,345,762	$ 3,449,504	$ 103,742
Other revenue	48,470	26,071	25,950	(121)
Total Operating Revenues	3,550,516	3,371,833	3,475,454	103,621
Non-operating Revenues				
Ad valorem taxes	2,097,363	2,100,000	2,104,883	4,883
Contributions and grants	-	42,700	124,937	82,237
Interest income	4,500	11,500	11,436	(64)
Other non-operating revenues	6,875	7,375	13,113	5,738
Total Non-operating Revenues	2,108,738	2,161,575	2,254,369	92,794
Total Budgetary Revenues, net	$ 5,659,254	$ 5,533,408	$ 5,729,823	$ 196,415
Operating Expenses				
Compensation	$ 2,381,749	$ 2,351,455	$ 2,246,062	$ 105,393
Contract services	1,052,200	1,050,550	1,049,992	558
Employee benefits	588,893	559,678	513,876	45,802
Materials and supplies	248,288	269,582	268,471	1,111
Depreciation and amortization	260,000	255,995	235,958	20,037
IT, equipment, and service contracts	225,940	223,483	210,243	13,240
Building and facilities	133,519	117,145	112,595	4,550
Insurance	51,293	43,345	45,976	(2,631)
Other operating expenses	715,721	605,324	610,224	(4,900)
Total Operating Expenses	5,657,603	5,476,557	5,293,397	183,160
Non-operating Expenses				
Distribution to TMCF	-	-	102,345	(102,345)
Distribution to IFAM	-	-	4,800	(4,800)
Other non-operating expenses	-	9,500	38,885	(29,385)
Total Non-operating Expenses	-	9,500	146,030	(136,530)
Capital Outlay	93,080	100,000	46,177	53,823
Principal payments on long-term obligations	-	-	-	-
Total Budgetary Expenses	$ 5,750,683	$ 5,586,057	$ 5,485,604	$ 100,453

OTHER SUPPLEMENTAL INFORMATION

TELLURIDE HOSPITAL DISTRICT

SCHEDULE OF REVENUE, NON-OPERATING REVENUES, EXPENSES,
AND NON-OPERATING EXPENSES - DEPARTMENTS
For the year ended December 31, 2011

	Emergency Care	Primary Care	THD Total
Operating Revenues			
Net patient service revenue	$ 2,044,558	$ 1,404,946	$ 3,449,504
Other revenue	560	25,390	25,950
Total Operating Revenues	2,045,118	1,430,336	3,475,454
Operating Expenses			
Compensation	1,394,200	851,862	2,246,062
Contract services	1,029,150	20,842	1,049,992
Employee benefits	340,722	173,154	513,876
Professional and consulting fees	209,599	135,299	344,898
Other operating expenses	146,516	49,293	195,809
Materials and supplies	159,186	109,285	268,471
Depreciation and amortization	235,958	-	235,958
IT, equipment, and service contracts	206,544	3,699	210,243
Building and facilities	108,659	3,936	112,595
Utilities and support services	66,486	3,020	69,506
Insurance	17,860	28,116	45,976
Interest	11	-	11
Total Operating Expenses	3,914,891	1,378,506	5,293,397
(Loss) Income from Operations	(1,869,773)	51,830	(1,817,943)
Non-operating Revenues			
Ad valorem taxes	2,017,188	87,695	2,104,883
Contributions and grants	63,551	61,386	124,937
Interest income	11,280	156	11,436
Other non-operating revenues	4,800	8,313	13,113
Total Non-operating Revenues	2,096,819	157,550	2,254,369
Non-operating Expenses			
Distribution to TMCF	102,345	-	102,345
Distribution to IFAM	4,800	-	4,800
Other non-operating expenses	37,856	1,029	38,885
Total Non-operating Expenses	145,001	1,029	146,030
Total Non-operating Revenues, net	1,951,818	156,521	2,108,339
Excess of Revenues Before Restricted Contributions	82,045	208,351	290,396
Restricted Contributions	-	-	-
Increase in Net Assets	$ 82,045	$ 208,351	$ 290,396