TELLURIDE HOSPITAL DISTRICT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2012 and 2011

DALBY, WENDLAND & CO., P.C.
Grand Junction
CPAs and Business Advisors
464 Main Street • P.O. Box 430 • Grand Junction, CO 81502
Phone: (970) 243-1921 • Fax: (970) 243-9214

Board of Directors
Telluride Hospital District
Telluride, Colorado

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements
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 and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. The financial statements of the Telluride Medical Center Foundation (Foundation) were audited in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the business-type activities and the blended component units of the District as of December 31, 2012 and 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the years ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 20 and 21 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 Boards, 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 out 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.

Dalby, Wendland & Co., P.C.

DALBY, WENDLAND & CO., P.C.
Grand Junction, Colorado

June 19, 2013

REQUIRED SUPPLEMENTAL INFORMATION

TELLURIDE HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2012

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.

TMC has two affiliated organizations: the Telluride Medical Center 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 as component units of the District.

TMC 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 Position provide information about the District's assets and liabilities and reflects the District's financial position as of December 31, 2012 and 2011.
- The Statements of Revenue, Expenses and Changes in Net Position report the cumulative activity of providing healthcare services and the expenses related to such activity for the years ended December 31, 2012 and 2011.
- The Statements of Cash Flows outline the cash inflows and outflows related to the activity of providing healthcare services for the years ended December 31, 2012 and 2011.
- 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. Statements of Net Position

Financial Analysis

The District's total assets at the end of the 2012 calendar year were $7,537,249 as compared to $6,996,094 at the end of the 2011 calendar year. The $541,155 increase reflects an increase in cash of $477,845, an increase in due from affiliates of $67,694, accounts receivable $32,565, other assets of $33,595 plus an increase in other current assets of $24,094 offset by a decrease in ad valorem taxes of $38,445, and a decrease in capital assets of $86,774 related to depreciation. The increase in cash relates to approximately a 9% increase in net patient service revenue, and several unplanned events during the year including meaningful use proceeds of $32,151, Class action lawsuit proceeds of $22,238, and savings related to a group purchasing organization. In addition, staff made deliberate reductions where possible anticipating the reduction in ad valorem tax revenue as well as successful grant funding and fundraising efforts by the TMCF.

At December 31, 2012, assets consisted primarily of total cash of $2,563,063, net capital assets of $2,291,071, current year ad valorem taxes receivable of $1,821,878, and net patient accounts receivable of $502,503.

Comparable asset balances at December 31, 2011 were as follows: total cash of $2,085,218, net capital assets of $2,377,845, prior year ad valorem taxes receivable of $1,860,323, and net patient accounts receivable of $469,938.

The District's total liabilities at December 31, 2012 were $921,922 consisting of accrued liabilities of $669,039, and accounts payable and due to affiliates of $252,883. The increase in accrued liabilities of $178,943 reflects an increase in accrued compensation relating to the current year's incentive as well as an increase due to the timing of the pay period end. The increase in accounts payable and due to affiliates relates directly to the increased program support from the TMCF to the District.

Comparable liability balances at December 31, 2011 were as follows: Total liabilities of $686,926, consisting of accrued liabilities of $490,096, and accounts payable and Due to affiliates of $196,830.

The District's deferred inflows of resources at December 31, 2012 were $1,825,470 and the comparable balance in 2011 was $1,856,634. The decrease of $31,164 is a direct result of reduced ad valorem taxes relating to a drop in the District's assessed values. The District does not have any debt nor any estimated liability for potential losses.

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

Net Patient Service Revenue

The District's net patient service revenue is divided between revenues from its 24-hour emergency service (57%) and revenues from its primary care clinic (43%). However, the emergency service accounts for only 19% of the patient encounters while the primary care accounts for 81%. Eighty-eight percent (88%) of the District's patient charges are billable to insurance companies and 12% 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 and increased between the calendar years 2012 and 2011 by approximately 9%. Net patient service revenue for the 2012 calendar year was reported as $3,777,314 compared to the 2011 calendar year net patient revenue of $3,476,112. Patient visits increased 8% during 2012 due to a local primary care office closure.

The TMCF conducted fewer formal fundraisers in 2012 but had a very successful year raising $302,050 as compared to $311,143 in 2011. TMCF received grants in 2012 totaling $1,077,647 of which all funds were dispersed per the program. Comparable grants in 2011 totaled $308,077. The IFAM contributions and grants were minimal in 2012 due to both the economy and a planned reduction in fundraising.

Total non-operating revenues for the 2012 calendar year ended at $3,434,161, compared to the non-operating revenues in 2011 of $2,591,533. Non-operating revenue 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 $198,715 decrease from 2011. Contributions and grants increased in 2012 related to the award of three separate federal grants. The District received $1,448,340 in contributions and grants in 2012 as compared to $461,558 in 2011.

The major expenses incurred by the District during the 2012 calendar year were compensation and employee benefits of $3,382,651 and $642,121, respectively; professional and consulting fees of $343,444; IT, equipment, and service contracts of $247,788; depreciation and amortization of $242,814 and materials and supplies of $242,006. Physician expenses were included in both compensation and contract services in 2012 and 2011 but reflect a change in employment status for the ER physicians beginning in February 2012.

TMCF had program expenses of $133,590 in 2012, which was an increase of $70,453 over 2011. Program expenses relate to activities that fulfill the TMCF mission which is to secure the financial resources required to ensure clinical excellence and the continued quality of care at the Telluride Medical Center. Other operating expenses such as a portion of compensation and benefits also qualify as program expenses but are classified using the same methodology as the District expenses. The program expense increase in 2012 includes an additional gift to the medical center of $64,926.

The District's net position at the end of the 2012 calendar year was $4,789,857 as compared to $4,452,534 at the end of the 2011 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 2012 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, economic conditions and trends in federal and state governmental healthcare coverage affect the District's collection of accounts receivable, cash flows, and results of operation. The provision for doubtful accounts for the 2012 calendar year was $118,044 and fully reserves all self-pay balances over 120 days old. The calendar year 2011 provision was $127,823.

3. Statements of Cash Flows

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	2012	2011
Operating Activities	$ (1,340,278)	$ (1,487,716)
Non-Capital Financing Activity	1,996,204	2,124,377
Capital & Related Financing Activity	(156,040)	(46,177)
Investing Activities	(22,041)	11,979
Net Increase/(Decrease) in Cash	$ 477,845	$ 602,463

The net cash used by the District's cash flows from operating activities decreased in 2012 primarily due to the increased revenues in the Primary care.

The decrease in non-capital financing relates directly to the reduced ad valorem tax revenue offset by increased support from the TMCF.

The capital and related financing increase is due to the many purchases of medical and administrative equipment in 2012.

The $477,845 increase of cash is the result of 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 2012 budget during the last quarter of the 2012 calendar year.

Economic and Other Factors

The days in accounts receivable ratio (DAR) at year end yielded 33 and 63 days in the Primary Care and Emergency Department business units, respectively. The healthy accounts receivable ratio is largely due to staff dedicated to working the self-pay accounts receivable. The Primary Care and Emergency Department DAR at year ended 2011 was 34 and 64, 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 2012, the District filed insurance claims with 1479 different insurance companies of which 42% were non-participating and represented 19% of the total patient revenue.

The day's cash on hand ratio at December 31, 2012 was 124 days versus day's cash on hand in December 2011 of 106 days. The increase is linked to increased revenue in the primary care due to a local office closure. 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, and 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	2012	2011	2010
Emergency Department	$ 75,343	$ 105,111	$ 84,057
Primary Care Department	57,111	77,736	60,077
Total Charity Care	$ 132,454	$ 182,847	$ 144,134

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 financial activity for the 2012 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 POSITION

December 31, 2012 and 2011

	2012				2011
	THD *	IFAM **	TMCF ***	**Total**	Total
ASSETS					
Current Assets					
Cash and cash equivalents	$ 2,113,643	$ 22,796	$ 426,624	**$ 2,563,063**	$ 2,085,218
Accounts receivable from patient services & pledges, net of estimated uncollectibles of $282,662 (2012) and $285,873 (2011)	456,191	935	45,377	**502,503**	469,938
Other receivables	32,153	-	-	**32,153**	10,350
Ad valorem taxes receivable	1,821,878	-	-	**1,821,878**	1,860,323
Due from affiliates	132,227	-	-	**132,227**	64,533
Inventory	95,154	-	-	**95,154**	86,376
Other current assets	65,605	-	-	**65,605**	41,511
Total Current Assets	4,716,851	23,731	472,001	**5,212,583**	4,618,249
Capital Assets, net	2,266,751	24,320	-	**2,291,071**	2,377,845
Other Assets	33,595	-	-	**33,595**	-
Total Assets	7,017,197	48,051	472,001	**7,537,249**	6,996,094
LIABILITIES					
Current Liabilities					
Accounts payable	104,201	-	16,455	**120,656**	132,670
Due to affiliates	679	-	131,548	**132,227**	64,160
Accrued compensation and employee benefits	566,550	-	-	**566,550**	398,160
Other accrued liabilities	102,489	-	-	**102,489**	91,936
Total Current Liabilities	773,919	-	148,003	**921,922**	686,926
Total Liabilities	773,919	-	148,003	**921,922**	686,926
DEFERRED INFLOWS OF RESOURCES					
Imposed nonexchange revenue - ad valorem taxes	1,825,470	-	-	**1,825,470**	1,856,634
Total Deferred Inflows of Resources	1,825,470	-	-	**1,825,470**	1,856,634
NET POSITION					
Invested in capital assets, net of related debt	2,266,751	24,320	-	**2,291,071**	2,377,845
Unrestricted components of net position					
Unrestricted	1,776,057	22,400	315,948	**2,114,405**	1,945,769
Board designated	250,000	-	-	**250,000**	-
Temporarily restricted components of net position	125,000	1,331	8,050	**134,381**	128,920
Total Net Position	$ 4,417,808	$ 48,051	$ 323,998	**$ 4,789,857**	$ 4,452,534

* Telluride Hospital District - See Note 1

** Institute for Altitude Medicine - See Note 1 and Note 13

*** Telluride Medical Center Foundation - See Note 1 and Note 14

See accompanying notes.

TELLURIDE HOSPITAL DISTRICT

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

For the years ended December 31, 2012 and 2011

	2012				2011
	THD	IFAM	TMCF	**Total**	Total
Operating Revenues					
Net patient service revenue	$ 3,746,390	$ 30,924	$ -	**$ 3,777,314**	$ 3,476,112
Contribution and donation income	-	-	302,050	**302,050**	311,143
Other revenue	59,299	618	-	**59,917**	26,474
Total Operating Revenues	3,805,689	31,542	302,050	**4,139,281**	3,813,729
Operating Expenses					
Compensation	3,282,949	7,767	91,935	**3,382,651**	2,360,615
Contract services	73,206	3,735	-	**76,941**	1,052,722
Employee benefits	611,997	6,329	23,795	**642,121**	549,177
Program expenses	-	-	110,176	**110,176**	63,137
Professional and consulting fees	337,783	1,411	4,250	**343,444**	361,199
Other operating expenses	199,335	964	40,876	**241,175**	217,739
Materials and supplies	241,272	542	192	**242,006**	273,761
Depreciation and amortization	238,021	4,793	-	**242,814**	240,751
IT, equipment, and service contracts	237,980	9,808	-	**247,788**	213,524
Building and facilities	120,609	4,800	-	**125,409**	117,395
Utilities and support services	64,732	-	1,644	**66,376**	71,718
Insurance	75,290	586	1,067	**76,943**	52,962
Travel and entertainment	-	-	3,791	**3,791**	12,416
Research and development	-	405	-	**405**	25,254
Interest and loan fees	22	-	-	**22**	11
Total Operating Expenses	5,483,196	41,140	277,726	**5,802,062**	5,612,381
Income (Loss) From Operations	(1,677,507)	(9,598)	24,324	**(1,662,781)**	(1,798,652)
Non-operating Revenues					
Ad valorem taxes	1,906,168	-	-	**1,906,168**	2,104,883
Contributions and grants	348,504	22,189	1,077,647	**1,448,340**	461,558
Interest income	11,018	-	536	**11,554**	11,979
Other non-operating revenues	68,099	-	-	**68,099**	13,113
Total Non-operating Revenues	2,333,789	22,189	1,078,183	**3,434,161**	2,591,533
Non-operating Expenses					
Contributions and grants	155,896	-	1,077,647	**1,233,543**	334,901
Distribution to TMCF	195,035	-	-	**195,035**	102,345
Distribution to IFAM	5,479	-	-	**5,479**	4,800
Loss on disposal of plant	-	-	-	**-**	12,061
Total Non-operating Expenses	356,410	-	1,077,647	**1,434,057**	454,107
Total Non-operating Revenues, net	1,977,379	22,189	536	**2,000,104**	2,137,426
Increase in Net Position	299,872	12,591	24,860	**337,323**	338,774
Net Position - beginning of the year	4,117,936	35,460	299,138	**4,452,534**	4,113,760
Net Position - end of the year	$ 4,417,808	$ 48,051	$ 323,998	**$ 4,789,857**	$ 4,452,534

See accompanying notes.

TELLURIDE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2012 and 2011

	2012				2011
	THD	IFAM	TMCF	**Total**	Total
Cash Flows From Operating Activities					
Cash received from patients and third-party payors	$ 3,714,591	$ 31,552	$ -	**$ 3,746,143**	$ 3,516,738
Cash received from other operating activities	37,496	618	186,639	**224,753**	252,611
Cash paid to suppliers and others	(1,314,856)	(19,950)	(158,371)	**(1,493,177)**	(1,449,196)
Cash paid to employees for services	(3,799,762)	(18,235)	-	**(3,817,997)**	(3,807,869)
Net Cash Provided (Used) by Operating Activities	(1,362,531)	(6,015)	28,268	**(1,340,278)**	(1,487,716)
Cash Flows From Non-capital Financing Activities					
Ad valorem taxes - Telluride Hospital District	1,913,449	-	-	**1,913,449**	2,105,302
Change in due to/from affiliate, net	(67,015)	-	67,388	**373**	(1,489)
Non-operating revenues	416,603	22,189	944,850	**1,383,642**	166,594
Non-operating expenses	(356,410)	-	(944,850)	**(1,301,260)**	(146,030)
Net Cash Provided by Non-capital Financing Activities	1,906,627	22,189	67,388	**1,996,204**	2,124,377
Cash Flows From Capital and Related Financing Activities					
Acquisition of property and equipment	(156,040)	-	-	**(156,040)**	(46,177)
Net Cash Used for Capital and Related Financing Activities	(156,040)	-	-	**(156,040)**	(46,177)
Cash Flows From Investing Activities					
Interest income received	11,018	-	536	**11,554**	11,979
Investment in HealthCare Management, Inc.	(33,595)	-	-	**(33,595)**	-
Net Cash Provided (Used) by Investing Activities	(22,577)	-	536	**(22,041)**	11,979
Increase in Cash and Cash Equivalents	365,479	16,174	96,192	**477,845**	602,463
Cash and Cash Equivalents - beginning of the year	1,748,164	6,622	330,432	**2,085,218**	1,482,755
Cash and Cash Equivalents - end of the year	$ 2,113,643	$ 22,796	$ 426,624	**$ 2,563,063**	$ 2,085,218

See accompanying notes.

TELLURIDE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2012 and 2011

	2012				2011
	THD	IFAM	TMCF	**Total**	Total
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:					
Income (loss) from operations	$ (1,677,507)	$ (9,598)	$ 24,324	**$ (1,662,781)**	$ (1,798,652)
Adjustments to reconcile operating loss to net cash used for operating activities:					
Bad debts	206,726	243	-	**206,969**	231,327
Provision for contractual adjustments	1,530,855	12,774	-	**1,543,629**	1,386,010
Depreciation and amortization	238,021	4,793	-	**242,814**	240,751
Loss on disposal of plant	-	-	-	**-**	12,061
Changes in:					
Patient accounts receivable	(1,769,380)	(12,389)	(1,394)	**(1,783,163)**	(1,603,097)
Other receivables	(21,803)	-	-	**(21,803)**	(6,541)
Inventory	(8,778)	-	-	**(8,778)**	7,165
Other current assets	(24,536)	442	-	**(24,094)**	24,112
Accounts payable and accrued liabilities	163,871	(2,280)	5,338	**166,929**	19,148
Net Cash Provided (Used) by Operating Activities	$ (1,362,531)	$ (6,015)	$ 28,268	**$ (1,340,278)**	$ (1,487,716)

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 13). Additional financial information pertaining to the TMCF may be obtained from Telluride Medical Center Foundation, P.O. Box 1229, Telluride, CO, 81435 (see Note 14).

Accounting Standards - The District implemented GASB No. 62 Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements during the year ended December 31, 2012.

The District implemented GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* for the year ended December 31, 2012. GASB No. 63 implements a new presentation of certain assets as deferred outflows, certain liabilities as deferred inflows, and also replaces the term net assets with net position. The effect of implementation of GASB No. 63 for the District was a reclassification of deferred revenues to deferred inflows of resources.

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 12 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. During 2012 the Board designated $250,000 to be used in the future purchase of land and a new facility.

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, 2012 and 2011, the District's mill levy consisted of general operating expenses and a special levy for emergency medical care. Property taxes for the current year are levied in December of the previous year and attach as a lien on property the following January 1. They are payable in full by April 30 or in two equal installments due February 28 and June 15. Property taxes for 2012 are reportable as a receivable and deferred inflows of resources at December 31. The deferred taxes are reported as revenue in the year in which the lien attaches and they are available and collected.

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.

Net Position - Net position is presented in the following components:

Net investment in capital assets - 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 component of net position - Unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Temporarily restricted component of net position - Temporarily restricted component of net position is used to differentiate resources, the uses of which are specified by donors or grantors, from resources of the unrestricted component of net position 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. Temporarily restricted components of net position for plant replacement and expansion are added to the unrestricted component of net position 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. In 2012, TMCF recorded $132,797 as in-kind revenues and expenses.

Income Taxes - As an essential government function of San Miguel County, the District is generally 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 2008.

Reclassifications - Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 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 $5,790,650 and the final budgeted expenditures were $6,002,833 for the year ended December 31, 2012.

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, 2012:

	Actual	Budget	Variance - Favorable (Unfavorable)
Revenue:			
GAAP-based revenue	$ 3,805,689	$ 3,872,583	$ (66,894)
GAAP-based non-operating revenue	2,333,789	2,151,926	181,863
Total Budgetary Revenue	$ 6,139,478	$ 6,024,509	$ 114,969
Expenses:			
GAAP-based expenses	$ 5,483,196	$ 5,589,720	$ 106,524
GAAP-based non-operating expenses	356,410	283,113	(73,297)
Adjustments:			
Capital outlay	156,040	130,000	(26,040)
Total Budgetary Expenses	$ 5,995,646	$ 6,002,833	$ 7,187

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 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.

The District had bank balances at December 31 as follows:

	2012	2011
Insured (FDIC) or collateralized with securities held by the District	$ 599,456	$ 528,093
Collateralized by securities held by the pledging financial institution in accordance with PDPA	2,025,036	1,503,713
Total	$ 2,624,492	$ 2,031,806
Carrying Value	$ 2,563,063	$ 2,085,218

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure the District would not be able to recover the value of its deposits. The District's deposits are not deemed to be exposed to custodial credit risk as they are held by the District, or the District's custody agent in the District's name.

Concentrations of Credit Risk – Deposits

Concentrations of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer or institution. The District holds 96 % of its cash deposits in one financial institution and 4% in a second institution.

NOTE 5 - CAPITAL ASSETS

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

2012	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Building improvements	$ 2,457,165	$ 18,137	$ -	$ -	$ 2,475,302
Medical equipment	1,115,877	94,096	15,625	-	1,194,348
Furniture and fixtures	65,614	-	-	-	65,614
Administrative equipment	212,572	43,807	7,485	-	248,893
Total Cost	3,851,228	156,040	23,110	-	3,984,157
Less accumulated depreciation and amortization:					
Building improvements	553,400	88,685	-	-	642,439
Medical equipment	703,153	124,596	15,625	-	811,769
Furniture and fixtures	58,501	2,394	-	-	60,895
Administrative equipment	158,329	27,139	7,485	-	177,983
Total Accumulated Depreciation and Amortization	1,473,383	242,814	23,110	-	1,693,086
Capital assets, net	$ 2,377,845	$ (86,774)	$ -	$ -	$ 2,291,071

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

NOTE 6 - INVESTMENT IN HEALTHCARE MANAGEMENT, INC.

The District invested in Healthcare Management, Inc. (HCM) during 2012. The District has a 0.5% ownership interest in HCM. HCM is a for-profit limited liability corporation that owns and operates two companies that provide self-pay recovery services for hospitals and medical billing offices. Management of the District identified the investment in HCM as a potential source of income as mill levy proceeds continue to decrease.

NOTE 7 - 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 $85,802 (2012) and $58,566 (2011) 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 $169,951 (2012) and $165,183 (2011).

NOTE 8 - LINE OF CREDIT

On December 10, 2012, 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, 2012 and 2011). This agreement has a maturity date of January 1, 2014. The line is collateralized by accounts receivable, inventory and equipment. As of December 31, 2012 and 2011, there were no draws on the line of credit.

NOTE 9 - NET POSITION

The District is required to report information regarding its financial position and activities according to three components of net position. The table below represents the District's financial position and activities at December 31, 2012:

THD	Invested in Capital Assets	Unrestricted	Unrestricted – Board Designated	Temporarily Restricted	Permanently Restricted	Total
Beginning net position	$ 2,348,732	$ 1,644,204	$ -	$ 125,000	$ -	$ 4,117,936
Fixed asset additions	156,040	(156,040)	-	-	-	-
Transfers to board designated	-	(250,000)	250,000	-	-	-
Increases in net position	(238,021)	537,893	-	-	-	299,872
Ending net position	$ 2,266,751	$ 1,776,057	$ 250,000	$ 125,000	$ -	$ 4,417,808

IFAM	Invested in Capital Assets	Unrestricted	Unrestricted – Board Designated	Temporarily Restricted	Permanently Restricted	Total
Beginning net position	$ 29,113	$ 2,427	$ -	$ 3,920	$ -	$ 35,460
Components of net position released from restriction	-	2,589	-	(2,589)	-	-
Increases in net position	(4,793)	17,384	-	-	-	12,591
Ending net position	$ 24,320	$ 22,400	$ -	$ 1,331	$ -	$ 48,051

TMCF	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning net position	$ 299,138	$ -	$ -	$ 299,138
Components of net position released from restriction	4,800	(4,800)	-	-
Increases in net position	12,010	12,850	-	24,860
Ending net position	$ 315,948	$ 8,050	$ -	$ 323,998

NOTE 10 - OPERATING LEASES

The District has a non-cancellable operating lease for rental of office equipment. This is set to expire in 2017. Lease expense for the years ended December 31 was $2,925 (2012) and $0 (2011). Future minimum lease payments for the years ending December 31 are as follows:

2013	$ 3,900
2014	3,900
2015	3,900
2016	3,900
2017	975
	$ 16,575

NOTE 11 - 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:

	2012	2011
Other third-party payors	53.6%	57.7%
Patient self-pay	37.3%	34.2%
Medicare	5.2%	4.5%
Medicaid	3.9%	3.6%

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

	2012	2011
Patient service revenue		
Emergency care	$ 2,981,827	$ 2,869,380
Community clinic	2,634,598	2,380,263
IFAM	43,941	40,801
Gross Patient Service Revenue	5,660,366	5,290,444
Financial hardship	(132,454)	(182,847)
Gross Patient Service Revenue, Net of Financial Hardship	5,527,912	5,107,597
Contractual adjustments	(1,543,629)	(1,400,158)
Provision for bad debts	(206,969)	(231,327)
Net Patient Service Revenue	$ 3,777,314	$ 3,476,112

NOTE 12 - 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, 2012 and 2011, 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.

Grant Repayment - The District received a special initiatives grant in 2010 from the Telluride Foundation in support of the Telluride Medical Center Remodeling Project in the amount of $125,000. The grant set forth a condition that requires the District to remain in the facility located at 500 West Pacific Avenue for five years. If the District does not remain in the facility through 2015, they would be required to repay the grant in full. The District's management has determined there is a remote possibility that the grant would need to be repaid based on the amount of time required to build a new facility and the substantial amount of money required to fund the project. This grant is classified a temporarily restricted component of net position in the statements of net position at December 31, 2012 and 2011.

NOTE 13 - 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, 2012 and 2011 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 position 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 position for the free use of the facilities during the years ended December 31, 2012 and 2011.

NOTE 14 - 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 $131,548 (2012) and $64,160 (2011).

As of December 31, TMCF had $302,050 (2012) and $311,143 (2011) of contribution and donation income, of which $104,389 (2012) and $102,345 (2011) was an in-kind donation from the District.

During 2012, TMCF was awarded four 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 2012 and 2011 related to the PEP grant was $488,307 and $152,519, respectively. For 2012, TMCF also received $132,797 in in-kind donations related to the PEP grant. Of that in-kind, $90,646 was support from the District. For the years ended December 31, 2012 and 2011, all monies were spent in the year received.

TMCF was awarded three grants 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 2012 and 2011 related to the three RHNDP grants was $456,543 and $155,558, respectively. For the years ended December 31, 2012 and 2011, all monies were spent in the year received.

NOTE 15 - 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, 2012 and 2011 were $207,045 and $182,847, respectively.

NOTE 16 - SUBSEQUENT EVENTS

The District has evaluated subsequent events through June 19, 2013, the date at which the financial statements were available to be issued, and determined that no events have occurred that required disclosure.

OTHER 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, 2012

	Budgeted Amounts			
	Original	Final	THD Actual	Favorable (Unfavorable) Variance
Operating Revenues				
Net patient service revenue	$ 3,607,174	$ 3,814,211	$ 3,746,390	$ (67,821)
Other revenue	45,321	58,372	59,299	927
Total Operating Revenues	3,652,495	3,872,583	3,805,689	(66,894)
Non-operating Revenues				
Ad valorem taxes	1,879,857	1,886,435	1,906,168	19,733
Contributions and grants	14,700	212,252	348,504	136,252
Interest income	10,300	10,500	11,018	518
Other non-operating revenues	18,500	42,739	68,099	25,360
Total Non-operating Revenues	1,923,357	2,151,926	2,333,789	181,863
Total Budgetary Revenues, net	$ 5,575,852	$ 6,024,509	$ 6,139,478	$ 114,969
Operating Expenses				
Compensation	$ 3,345,352	$ 3,351,777	$ 3,282,949	$ 68,828
Contract services	18,350	68,816	73,206	(4,390)
Employee benefits	677,555	629,855	611,997	17,858
Materials and supplies	296,765	258,515	241,272	17,243
Depreciation and amortization	244,080	237,417	238,021	(604)
IT, equipment, and service contracts	233,849	230,444	237,980	(7,536)
Building and facilities	115,390	113,339	120,609	(7,270)
Insurance	91,919	72,767	75,290	(2,523)
Other operating expenses	660,890	626,790	601,872	24,918
Total Operating Expenses	5,684,150	5,589,720	5,483,196	106,524
Non-operating Expenses				
Contributions and grants	6,500	178,368	155,896	22,472
Distribution to TMCF	-	102,345	195,035	(92,690)
Distribution to IFAM	-	2,400	5,479	(3,079)
Total Non-operating Expenses	6,500	283,113	356,410	(73,297)
Capital Outlay	100,000	130,000	156,040	(26,040)
Total Budgetary Expenses	$ 5,790,650	$ 6,002,833	$ 5,995,646	$ 7,187

See independent auditor's report.

TELLURIDE HOSPITAL DISTRICT

SCHEDULE OF REVENUE, NON-OPERATING REVENUES, EXPENSES,
AND NON-OPERATING EXPENSES - DEPARTMENTS

For the year ended December 31, 2012

	Emergency Care	Primary Care	THD Total
Operating Revenues			
Net patient service revenue	$ 2,142,520	$ 1,603,870	$ 3,746,390
Other revenue	1,354	57,945	59,299
Total Operating Revenues	2,143,874	1,661,815	3,805,689
Operating Expenses			
Compensation	2,390,370	892,579	3,282,949
Contract services	60,000	13,206	73,206
Employee benefits	435,503	176,494	611,997
Professional and consulting fees	202,176	135,607	337,783
Other operating expenses	153,715	45,620	199,335
Materials and supplies	115,748	125,524	241,272
Depreciation and amortization	238,021	-	238,021
IT, equipment, and service contracts	224,027	13,953	237,980
Building and facilities	119,212	1,397	120,609
Utilities and support services	59,847	4,885	64,732
Insurance	62,035	13,255	75,290
Interest	-	22	22
Total Operating Expenses	4,060,654	1,422,542	5,483,196
Income (Loss) from Operations	(1,916,780)	239,273	(1,677,507)
Non-operating Revenues			
Ad valorem taxes	1,846,441	59,727	1,906,168
Contributions and grants	151,159	197,345	348,504
Interest income	10,721	297	11,018
Other non-operating revenues	45,566	22,533	68,099
Total Non-operating Revenues	2,053,887	279,902	2,333,789
Non-operating Expenses			
Contributions and grants	14,607	141,289	155,896
Distribution to TMCF	104,389	90,646	195,035
Distribution to IFAM	4,800	679	5,479
Total Non-operating Expenses	123,796	232,614	356,410
Total Non-operating Revenues, net	1,930,091	47,288	1,977,379
Increase in Net Position	$ 13,311	$ 286,561	$ 299,872

See independent auditor's report.