



Financial Statements
December 31, 2016 and 2015
Haxtun Hospital District



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Independent Auditor's Report

The Board of Directors
Haxtun Hospital District
Haxtun, Colorado

Report on the Financial Statements

We have audited the accompanying statement of net position of Haxtun Hospital District (District), as of December 31, 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 financial statements.

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

Opinion

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

Other Matters

The financial statements of Haxtun Hospital District as of December 31, 2015, were audited by other auditors, whose report dated June 1, 2016, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2017, on our consideration of the District's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Haxtun Hospital District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
May 25, 2017

Introduction

Our discussion and analysis of Haxtun Hospital District's (District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2016, 2015, and 2014. It should be read in conjunction with the District's financial statements, which begin on page 7.

Financial Highlights

- The District's net position increased by \$347,868 or 11.5% in 2016 and by \$923,530 or 43.7% in 2015.
- The District reported an operating loss of \$23,572 in 2016 and an operating income of \$530,241 in 2015.
- Total operating revenues increased by \$165,101 or 2.0% in 2016 and by \$693,635 or 9.0% in 2015.
- Operating expenses increased by \$718,914 or 9.1% in 2016 and by \$358,027 or 4.7% in 2015.
- Nonoperating revenues increased by \$59,413 or 19.0% in 2016 and decreased by \$31,772 or 9.2% in 2015.

Using This Annual Report

The District's financial statements consist of three statements; a Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position reflect information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting requires that all of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. The District's total net position – the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources – are one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided and local economic factors should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

The District's Net Position

The District's net position is the difference between its assets, liabilities, and deferred inflow of resources in the Statements of Net Position on page 7. The District's net position increased by \$347,868 or 11.5% in 2016 and by \$923,530 or 43.7% in 2015 as shown below:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Current assets	\$ 3,920,462	\$ 2,661,830	\$ 2,156,439
Capital assets, net	1,806,207	1,799,559	1,665,287
Other noncurrent assets	314,975	310,947	306,686
	<u>6,041,644</u>	<u>4,772,336</u>	<u>4,128,412</u>
Liabilities			
Long-term debt outstanding	\$ 897,538	\$ 660,000	\$ 660,000
Other liabilities	1,432,754	784,962	1,073,295
	<u>2,330,292</u>	<u>1,444,962</u>	<u>1,733,295</u>
Deferred Inflows from Resources - Property Taxes	<u>325,000</u>	<u>288,890</u>	<u>280,163</u>
	<u>2,655,292</u>	<u>1,733,852</u>	<u>2,013,458</u>
Net Position			
Invested in capital assets, net of related debt	908,669	1,139,559	940,287
Restricted - nonexpendable endowment	49,221	49,137	49,087
Unrestricted	2,428,462	1,849,788	1,125,580
	<u>3,386,352</u>	<u>3,038,484</u>	<u>2,114,954</u>
	<u>\$ 6,041,644</u>	<u>\$ 4,772,336</u>	<u>\$ 4,128,412</u>

Operating Results and Changes in the District's Net Position

The following table highlights the District's operations and changes in net position. The District had an operating loss in 2016 and operating income in 2015, and 2014, along with an increase in net position over the three years.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues			
Net patient service revenues	\$ 8,377,141	\$ 8,163,385	\$ 7,404,580
Other operating revenues	221,921	270,576	335,746
Total operating revenues	<u>8,599,062</u>	<u>8,433,961</u>	<u>7,740,326</u>
Operating Expenses			
Salaries and benefits	5,181,424	4,748,070	4,287,458
Professional fees and purchased services	1,359,907	1,583,772	1,368,477
Depreciation	497,868	360,597	346,937
Provider fee tax	70,806	79,410	61,507
Supplies and other	1,512,629	1,131,871	1,481,314
Total operating expenses	<u>8,622,634</u>	<u>7,903,720</u>	<u>7,545,693</u>
Operating Income (Loss)	<u>(23,572)</u>	<u>530,241</u>	<u>194,633</u>
Nonoperating Revenues (Expenses)			
Property taxes	320,228	323,245	306,996
Grants and contributions	41,251	3,310	27,085
Interest income	5,616	5,025	3,725
Interest expense	(33,461)	(22,997)	(24,779)
Other nonoperating revenues	37,806	3,444	30,772
Total nonoperating revenues, net	<u>371,440</u>	<u>312,027</u>	<u>343,799</u>
Revenues in Excess of Expenses Before Capital Grants and Contributions	347,868	842,268	538,432
Capital Grants and Contributions	<u>-</u>	<u>81,262</u>	<u>26,093</u>
Increase in Net Position	<u>\$ 347,868</u>	<u>\$ 923,530</u>	<u>\$ 564,525</u>

Operating Income

The first component of the overall change in the District's net position is its operating income, generally, the difference between operating revenues and the expenses incurred to perform those services. The District is reporting an operating loss of \$23,572 in 2016 and an operating income of \$530,241 in 2015.

Net patient service revenues increased from approximately \$7.4 million in 2014 to approximately \$8.2 million in 2015, an increase of 10.3%, and increased to \$8.4 million from 2015 to 2016, an increase of 2.6%. The increase in 2016 is attributed to a 4% price increase including having the retail pharmacy operational for the entire year.

Operating expenses increased from approximately \$7.5 million in 2014 to approximately \$7.9 million in 2015, an increase of 4.7%, and increased to \$8.6 million from 2015 to 2016, an increase of 9.1%. This increase in 2016 is largely attributable to the retail pharmacy supplies expense as well as an increase in clinic salaries and benefits.

Nonoperating Revenues and Expenses

Non-operating revenues and expenses consist primarily of property taxes levied by the District, grants and contributions, interest expense, investment income, and other income.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating income and non-operating revenues and expenses, as discussed earlier.

Capital Assets

At the end of 2016 and 2015, the District had \$1,806,207 and \$1,799,559 invested in capital assets, net of accumulated depreciation. During 2016, the District invested approximately \$505,000 in new capital assets. These capital expenditures were primarily for patient service quality improvements. During 2015, the District invested approximately \$465,000 in new property and equipment. The 2016 capital expenditures related to an ultrasound machine, CT scanner, and other minor equipment.

Debt

At the end of 2016 and 2015, the outstanding amount of the 2013 General Obligation Refunding Bonds was \$590,000 and \$660,000. During 2016, the District entered into a capital lease related to the CT scanner mentioned above. At the end of 2016, the outstanding amount due on the capital lease was approximately \$308,000.

Other Economic Factors

The District is located in a rural area which is predominately a farming community. Additional economic factors affecting the District include changes in county population, increasing numbers of uninsured or underinsured patients and increasing costs of recruiting, hiring, and retaining health care professionals.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the funds it receives. Questions about this report and requests for additional financial information should be directed to the District Administration by telephoning 970-774-6123.

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	<u>2016</u>	<u>2015</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,025,033	\$ 1,393,511
Receivables		
Patient, net of estimated uncollectibles of \$175,000 in 2016 and \$157,000 in 2015	1,209,611	738,102
Property taxes	325,000	292,308
Other	47,454	30,179
Supplies	178,437	170,757
Prepaid expenses and other	134,927	36,973
Total current assets	<u>3,920,462</u>	<u>2,661,830</u>
Noncurrent Cash and Cash Equivalents		
Restricted by donors	49,221	49,137
Certificate of deposit	265,754	261,810
Total noncurrent cash	<u>314,975</u>	<u>310,947</u>
Capital Assets		
Capital assets not being depreciated	68,304	8,434
Depreciable capital assets, net of accumulated depreciation	1,737,903	1,791,125
Total capital assets, net	<u>1,806,207</u>	<u>1,799,559</u>
Total assets	<u>\$ 6,041,644</u>	<u>\$ 4,772,336</u>

See Notes to Financial Statements

Haxtun Hospital District
Statements of Net Position
December 31, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 139,043	\$ 70,000
Accounts payable		
Trade	190,734	181,502
Estimated third-party payor settlements	707,000	79,000
Accrued expenses		
Salaries and wages	60,073	37,766
Employee benefits	293,770	224,107
Interest	1,559	1,744
Total current liabilities	1,392,179	594,119
Unearned Revenue - Electronic Health Record Incentives	179,618	260,843
Long-Term Debt, Less Current Maturities	758,495	590,000
Total liabilities	2,330,292	1,444,962
Deferred Inflows of Resources - Property Taxes	325,000	288,890
Net Position		
Invested in capital assets, net of related debt	908,669	1,139,559
Restricted - nonexpendable endowment	49,221	49,137
Unrestricted	2,428,462	1,849,788
Total net position	3,386,352	3,038,484
Total liabilities, deferred inflows of resources, and net position	\$ 6,041,644	\$ 4,772,336

Haxtun Hospital District
 Statements of Revenues, Expenses, and Changes in Net Position
 Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$88,000 in 2016 and \$146,000 in 2015	\$ 8,377,141	\$ 8,163,385
Other revenue	221,921	270,576
Total operating revenues	8,599,062	8,433,961
Operating Expenses		
Salaries and wages	4,462,137	4,040,292
Employee benefits	719,287	707,778
Supplies	1,147,662	828,043
Professional fees	858,085	890,872
Purchased services	501,822	692,900
Depreciation and amortization	497,868	360,597
Insurance	144,709	113,464
Provider fee tax	70,806	79,410
Other	220,258	190,364
Total operating expenses	8,622,634	7,903,720
Operating Income (Loss)	(23,572)	530,241
Nonoperating Revenues (Expenses)		
Property taxes	320,228	323,245
Grants and contributions	41,251	3,310
Investment income	5,616	5,025
Interest expense	(33,461)	(22,997)
Other nonoperating revenue	37,806	3,444
Total nonoperating revenues, net	371,440	312,027
Revenues in Excess of Expenses Before Capital Grants and Contributions	347,868	842,268
Capital Grants and Contributions	-	81,262
Increase in Net Position	347,868	923,530
Net Position, Beginning of Year	3,038,484	2,114,954
Net Position, End of Year	\$ 3,386,352	\$ 3,038,484

Haxtun Hospital District
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	\$ 8,533,632	\$ 7,853,055
Receipts from other operating activities	123,421	108,290
Payments to and on behalf of employees	(5,089,454)	(4,790,402)
Payments to suppliers, contractors, and others	(3,039,744)	(2,851,177)
Net Cash From Operating Activities	527,855	319,766
Noncapital Financing Activities		
Property taxes received	229,696	207,307
Noncapital grants and contributions	41,251	3,310
Other nonoperating revenue	37,806	3,444
Net Cash From Noncapital Financing Activities	308,753	214,061
Capital and Related Financing Activities		
Purchase and construction of capital assets	(140,576)	(465,309)
Principal payment on long-term debt	(126,402)	(65,000)
Interest paid on long-term debt	(33,646)	(23,168)
Proceeds from property taxes for debt service	93,950	112,520
Capital grants and contributions	-	81,262
Net Cash Used For Capital and Capital Related Financing Activities	(206,674)	(359,695)
Investing Activities		
Interest income	5,616	5,025
Increase in noncurrent cash and cash equivalents	(4,028)	(4,261)
Net Cash From Investing Activities	1,588	764
Net Increase in Cash and Cash Equivalents	631,522	174,896
Cash and Cash Equivalents, Beginning of Year	1,393,511	1,218,615
Cash and Cash Equivalents, End of Year	\$ 2,025,033	\$ 1,393,511

Haxtun Hospital District
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Operating Income (Loss) to Net Cash from		
Operating Activities		
Operating income (loss)	\$ (23,572)	\$ 530,241
Adjustments to reconcile operating income (loss) to net cash		
from operating activities		
Depreciation and amortization	497,868	360,597
Provision for bad debts	87,920	145,661
Changes in assets and liabilities		
Patients receivables, net	(559,429)	(438,581)
Estimated third-party payor settlements	628,000	62,000
Electronic health records incentive	(81,225)	(162,286)
Other receivables	(17,275)	(13,657)
Supplies	(7,680)	(14,573)
Prepaid expenses	(97,954)	(9,500)
Accounts payable	9,232	(97,804)
Accrued salaries	22,307	(103,634)
Accrued employee benefits	69,663	61,302
Net Cash From Operating Activities	\$ 527,855	\$ 319,766
Supplemental Disclosure of Noncash Capital and Capital Related		
Financing Activities		
Equipment financed through capital lease arrangement	\$ 363,940	\$ -
Purchases of capital assets included in accounts payable	\$ -	\$ 29,560

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

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

Reporting Entity

The District is a 25-bed licensed acute care hospital located in Haxtun, Colorado. The District is organized as a political subdivision of the state of Colorado, governed by an elected five member board and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(a). The Board of Directors exercises governing oversight responsibility for the District which includes duties such as budget review, care of patients, and management of the facilities as set forth by the ordinance of Haxton.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District does not have a component unit which meets the GASB criteria.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the District's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Expendable – expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the District.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

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

Cash and Cash Equivalents

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

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.

Property Taxes

The District levies property taxes on an annual basis through a mill levy on assessed property valuations. Property tax is recognized on the lien date, which is January 1 of the tax year in Colorado. The property tax receivable represents taxes certified by the Board of Directors to be collected in the next fiscal year. However, by statute, the tax asking becomes effective on the first day of the following year. Although the property tax receivable has been recorded, the related revenue is considered a deferred inflow of resources – unavailable revenue and will not be recognized as revenue until the year for which it is levied. The District received approximately 4% of its financial support from property taxes in 2016 and 2015.

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

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Noncurrent Cash and Cash Equivalents

Noncurrent cash and cash equivalents are restricted by donor and certificates of deposit with an original maturity exceeding one year.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements.

The estimated useful lives of property and equipment are as follows:

Buildings and fixed equipment	20-40 years
Major Movable Equipment	3-20 years

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

Compensated Absences

The District's employees earn paid time off at varying rates depending on number of hours worked and years of service. Paid time off accumulates each pay period throughout the fiscal year. Employees accrue paid time off from the date of hire but may not utilize the hours until they have completed 90 days of employment. Employees are paid for accumulated paid time off at termination. The estimated amount of paid time off payable at termination is included with accrued employee benefits in the accompanying financial statements.

Unearned Revenue – Electronic Health Records Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that demonstrate meaningful use of certified Electronic Health Records (EHR) technology.

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

As the entire EHR incentive payment is received in a lump sum for critical access hospitals and the District must annually attest to increasingly stringent meaningful use criteria, the EHR incentive payment is first recognized as an unearned revenue with a ratable recognition of revenue over a specified time period. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

During the year ended December 31, 2013, the District received \$846,248 as a lump sum incentive payment related to EHR. During the year ended December 31, 2016, the District received an additional \$101,939 as a lump sum incentive payment related to EHR. At the time the lump sum payment was received, the District recorded unearned revenue, a liability, for the entire amount.

The District is recognizing revenue ratably over five years. As a result, the District recognized revenue of \$183,163 and \$238,098 for the years ended December 31, 2016 and 2015 by amortizing the deferred revenue into other revenue. The District has unearned revenue related to the EHR incentive payments of \$179,618 and \$260,843 remaining at December 31, 2016 and 2015.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources reported in the financial statements are unavailable property taxes. Property taxes will be recognized as revenue in the year they are levied.

Operating Revenues and Expenses

The District's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the District result from exchange transactions associated with providing health care services - the District's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

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. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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.

Charity Care

The District provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the District does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$0 and \$4,000 for the years ended December 31, 2016 and 2015, calculated by multiplying the ratio of cost to gross charges for the District by the gross uncompensated charges associated with providing charity care to its patients.

Grants and Contributions

The District may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of expenses.

Provider Fee Program

The District participates in the State of Colorado provider fee program, approved by the Centers for Medicare and Medicaid Services (CMS), under which all hospitals in the state are assessed a fee based on bed size and payor mix. The state of Colorado uses the fees to supplement state budget funds for the Medicaid program, which brings matching federal monies into the program, enabling the state of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible. The District recorded approximately \$71,000 and \$79,000 in provider fees for the years ended December 31, 2016 and 2015, which are recorded as a part of operating expenses. The District recorded approximately \$1,043,000 and \$1,624,000 of supplemental payments for the years ended December 31, 2016 and 2015, which are recorded as part of net patient service revenue.

In addition, the Colorado Hospital Association manages a redistribution pool for participating facilities. The District recorded expenses of approximately \$23,000 and \$6,000 for the years ended December 31, 2016 and 2015, which is recorded as part of net patient service revenue.

Reclassifications

Reclassifications have been made to the December 31, 2015 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

Note 2 - 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. A summary of the payment arrangements with major third-party payors follows:

Medicare: The District is licensed as a Critical Access Hospital (CAH). The District is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the District and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The District's Medicare cost reports have been audited by the MAC through the year ended December 31, 2014. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the District's Medicare cost report, or rates as established by the Medicaid program. The District is reimbursed at a tentative rate with final settlement determined by the program based on the District's final Medicaid cost report. The District's final Medicaid settlements have been processed through the year ended December 31, 2012.

Blue Cross: Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

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

Concentration of net revenues by major payor accounted for the following amounts of the District's patient service revenues for the years ended December 31, 2016 and 2015:

	2016	2015
Medicare	51%	49%
Medicaid	25%	25%
Blue Cross and other commercial payors	22%	24%
Self pay and other	2%	2%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended December 31, 2016 and 2015 increased approximately \$311,000 and \$64,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the District may incur a liability for a claims overpayment at a future date. The District is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the District's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the District and CMS.

Note 3 - Deposits

The carrying amounts of deposits as of December 31, 2016 and 2015 are included in the District's statement of net position as follows:

	2016	2015
Cash and cash equivalents - current assets	\$ 2,025,033	\$ 1,393,511
Restricted by donors - noncurrent assets	49,221	49,137
Certificate of deposit - noncurrent assets	265,754	261,810
	\$ 2,340,008	\$ 1,704,458

Investment income on deposits consists of the following for the years ended December 31, 2016 and 2015:

	2016	2015
Interest income	\$ 5,616	\$ 5,025

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank or investment company failure, the District’s deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the District. Statutes also require that the market value of the collateral be at least 110% of the excess deposits. The District’s deposit policy does not further restrict bank deposits or limit investment deposits.

The District’s deposits in banks at December 31, 2016 and 2015 were entirely covered by federal depository insurance or by collateral held by the District’s custodial bank in the District’s name.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2015	Additions	Retirements/ transfers	December 31, 2016
Capital assets not being depreciated				
Land	\$ 8,290	\$ -	\$ -	\$ 8,290
Construction in progress	144	59,870	-	60,014
Total capital assets, not being depreciated	\$ 8,434	\$ 59,870	\$ -	\$ 68,304
Capital assets being depreciated				
Buildings and improvements	\$ 3,220,597	\$ 30,725	\$ -	\$ 3,251,322
Equipment	3,104,224	413,921	-	3,518,145
Total capital assets being depreciated	6,324,821	\$ 444,646	\$ -	6,769,467
Less accumulated depreciation				
Buildings and improvements	2,330,051	\$ 103,975	\$ -	2,434,026
Equipment	2,203,645	393,893	-	2,597,538
Total accumulated depreciation	4,533,696	\$ 497,868	\$ -	5,031,564
Net capital assets being depreciated	\$ 1,791,125			\$ 1,737,903
Capital assets, net	\$ 1,799,559			\$ 1,806,207

Haxtun Hospital District
Notes to Financial Statements
December 31, 2016 and 2015

	December 31, 2014	Additions	Retirements/ transfers	December 31, 2015
Capital assets not being depreciated				
Land	\$ 8,290	\$ -	\$ -	\$ 8,290
Construction in progress	-	144		144
Total capital assets, not being depreciated	<u>\$ 8,290</u>	<u>\$ 144</u>	<u>\$ -</u>	<u>\$ 8,434</u>
Capital assets being depreciated				
Buildings and improvements	\$ 3,071,094	\$ 149,503	\$ -	\$ 3,220,597
Equipment	2,757,706	346,518	-	3,104,224
Total capital assets being depreciated	<u>5,828,800</u>	<u>\$ 496,021</u>	<u>\$ -</u>	<u>6,324,821</u>
Less accumulated depreciation				
Buildings and improvements	2,234,424	\$ 95,627	\$ -	2,330,051
Equipment	1,938,675	264,970	-	2,203,645
Total accumulated depreciation	<u>4,173,099</u>	<u>\$ 360,597</u>	<u>\$ -</u>	<u>4,533,696</u>
Net capital assets being depreciated	<u>\$ 1,655,701</u>			<u>\$ 1,791,125</u>
Capital assets, net	<u>\$ 1,663,991</u>			<u>\$ 1,799,559</u>

Construction in progress at December 31, 2016, represents costs related to future renovation projects. There are no outstanding commitments on the projects.

Note 5 - Lease Obligations

The District leases certain equipment under noncancelable long-term lease agreements. The lease has been recorded as a capitalized lease. The capitalized leased asset consists of:

	2016	2015
Major moveable equipment	\$ 363,940	\$ -
Less accumulated amortization	<u>(56,402)</u>	<u>-</u>
	<u>\$ 307,538</u>	<u>\$ -</u>

Minimum future lease payments for the capital lease is as follows:

<u>Years Ending December 31,</u>	<u>Capital Lease</u>
2017	\$ 81,230
2018	81,230
2019	81,230
2020	81,230
2021	<u>12,188</u>
Total minimum lease payments	337,108
Less interest	<u>(29,570)</u>
Present value of minimum lease payments - Note 6	<u><u>\$ 307,538</u></u>

Note 6 - Long-Term Debt

A schedule of changes in the District's long-term debt for 2016 and 2015 is as follows:

	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31, 2016</u>	<u>Amounts Due within One Year</u>
GO Refunding Bonds, Series 2013	\$ 660,000	\$ -	\$ (70,000)	\$ 590,000	\$ 70,000
Capital Lease (Note 5)	<u>-</u>	<u>363,940</u>	<u>(56,402)</u>	<u>307,538</u>	<u>69,043</u>
Total long-term debt	<u>\$ 660,000</u>	<u>\$ 363,940</u>	<u>\$ (126,402)</u>	<u>\$ 897,538</u>	<u>\$ 139,043</u>
	<u>Balance December 31, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31, 2015</u>	<u>Amounts Due within One Year</u>
GO Refunding Bonds, Series 2013	<u>\$ 725,000</u>	<u>\$ -</u>	<u>\$ (65,000)</u>	<u>\$ 660,000</u>	<u>\$ 70,000</u>

General Obligation Bonds

The District issued general obligation bonds to provide funds for refunding existing debt. General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds outstanding at December 31, 2016 are as follows:

- 3.17% General Obligation Refunding Bonds, Series 2013, due in semi-annual installments to December 2024, secured by the levied property taxes of the District.
- Capital lease is due in monthly payments of \$6,769 through February 2021, including interest imputed at 4.41%, secured by leased equipment.

Scheduled debt service requirements for the District's bonds and capital lease are as follows:

<u>Years Ending December 31,</u>	<u>Bond and Capital Lease Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 139,043	\$ 30,891
2018	142,152	25,562
2019	145,402	20,093
2020	153,797	14,478
2021	87,144	9,713
2022-2026	230,000	14,741
Total	<u>\$ 897,538</u>	<u>\$ 115,478</u>

Note 7 - Restricted Net Position

At December 31, 2016 and 2015, restricted net position was restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Restricted - nonexpendable endowment	<u>\$ 49,221</u>	<u>\$ 49,137</u>

The District received funds from a contributor to establish an endowment. The earnings on the endowment can be expended to support the District's activities.

Note 8 - Pension Plan

The District has a defined contribution pension plan under which employees are eligible to participate if the employee works more than 32 hours per week. Employer contributions are a match of the employee contributions up to a percent of annual salary, for eligible participating employees and are deposited with the plan trustee who invests the plan assets. The contribution percentage is set by the Board of Directors on an annual basis. Total pension plan expense for the years ended December 31, 2016, 2015, and 2014 was \$41,346, \$11,202, and \$0.

Note 9 - Concentrations of Credit Risk

The District grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2016 and 2015 was as follows:

	<u>2016</u>	<u>2015</u>
Medicare	39%	30%
Medicaid	14%	7%
Blue Cross	6%	3%
Patients and other-third party insurance	41%	60%
	<u>100%</u>	<u>100%</u>

Note 10 - Contingencies

Risk Management

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

Malpractice Insurance

The District has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. Further, the District is subject to the provisions of the Colorado Government Immunity Act, which provides limitations on the liability of the District.

Litigations, Claims, and Disputes

The District is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the District.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously, billed and collected revenues from patient services.



Supplementary Information
December 31, 2016 and 2015
Haxtun Hospital District



Independent Auditor's Report on Supplementary Information

The Board of Directors
Haxtun Hospital District
Haxtun, Colorado

We have audited the financial statements of Haxtun Hospital District as of and for the year ended December 31, 2016, and our report thereon May 25, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of budgeted and actual revenues and expenses shown on page 24, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of budgeted and actual revenues and expenses has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Fargo, North Dakota
May 25, 2017

Haxtun Hospital District
Schedule of Budgeted and Actual Revenues and Expenses (Unaudited)
Year Ended December 31, 2016

	Actual	Budgeted (Unaudited)	Favorable (Unfavorable) Variance (Unaudited)
Operating Revenues			
Net patient service revenue	\$ 8,377,141	\$ 8,357,467	\$ 19,674
Other	221,921	240,000	(18,079)
	<u>8,599,062</u>	<u>8,597,467</u>	<u>1,595</u>
Operating Expenses			
Salaries and wages	4,462,137	4,729,388	267,251
Employee benefits	719,287	813,052	93,765
Purchased services	501,822	601,269	99,447
Professional fees	858,085	270,000	(588,085)
Depreciation and amortization	497,868	489,805	(8,063)
Supplies	1,147,662	1,045,679	(101,983)
Insurance	144,709	101,000	(43,709)
Provider fee tax	70,806	-	(70,806)
Other	220,258	203,026	(17,232)
	<u>8,622,634</u>	<u>8,253,219</u>	<u>(369,415)</u>
Operating Income	<u>(23,572)</u>	<u>344,248</u>	<u>(367,820)</u>
Nonoperating Revenues, Net	<u>371,440</u>	<u>302,937</u>	<u>68,503</u>
	<u>\$ 347,868</u>	<u>\$ 647,185</u>	<u>\$ (299,317)</u>

Notes to Schedule

1. Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.
2. Appropriations are adopted by resolutions in total.
3. Management believes that the Hospital is compliant with the rules of Colorado's Taxpayer's Bill of Rights (TABOR).



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
Haxtun Hospital District
Haxtun, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General, of the United States, the financial statements of Haxtun Hospital District (District) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated May 25, 2017.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Compliance and Other Matters

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

District's Response to Findings

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
May 25, 2017

2016-A Preparation of Financial Statements
Material Weakness in Internal Control over Financial Reporting

Criteria – A good system of internal accounting control should provide for the preparation of the financial statements and footnotes in accordance with generally accepted accounting principles that are materially correct.

Condition – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, which include the accompanying required footnote disclosures. As auditors, we were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

Cause – This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints.

Effect – Inadequate controls over financial reporting could result in the District not being able to draft the financial statements and accompanying footnotes that are materially correct without the assistance of the auditors.

Recommendation – This circumstance is not unusual in an organization of your size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials – Due to cost considerations, the District will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

2016-B Material Audit Adjustments
Material Weakness in Internal Control over Financial Reporting

Criteria – A good system of internal control involves reconciliation of accounts on a monthly basis, with review for accuracy and timeliness.

Condition – As part of our audit, we proposed significant audit adjustments related to the estimated third-party payor settlements and contractual adjustments that were not identified by management as a result of the District's existing internal controls.

Cause – Management does not have a control procedure in place to complete an analysis on the estimated third-party payor settlements and contractual adjustments throughout the year, which resulted in a material audit adjustment.

Effect – The control deficiency could result in a misstatement to the interim and annual financial statements that would not be prevented or detected and corrected on a timely basis.

Recommendation – We recommend management implement an ongoing financial estimation of the estimated third-party payor settlements and the contractual adjustments to ensure they are adjusted properly throughout the year and necessary adjustments are recorded by management prior to the audit.

Views of Responsible Officials – Management agrees with the finding and will review current reporting procedures to identify all significant adjustments and transactions so that they will be recorded in the accounting records prior to year-end.