

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**December 31, 2016 and 2015**

**Contents**

<b>Independent Auditor's Report .....</b>	<b>1</b>
<b>Management's Discussion and Analysis.....</b>	<b>3</b>
<b>Financial Statements</b>	
Statements of Net Position.....	8
Statements of Revenues, Expenses and Changes in Net Position.....	9
Statements of Cash Flows.....	10
Notes to Financial Statements.....	12

## Independent Auditor's Report

Board of Directors  
Huerfano County Hospital District  
d/b/a Spanish Peaks Regional Health Center  
Walsenburg, Colorado

We have audited the accompanying financial statements of Colorado State Veterans Nursing Home (the Nursing Home), a component unit of Huerfano County Hospital District, which comprise the statement of net position 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.

### ***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 generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinion.

Board of Directors  
Huerfano County Hospital District  
d/b/a Spanish Peaks Regional Health Center

### ***Opinion***

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

### ***Prior Year Audited by Other Auditors***

The 2015 financial statements were audited by other auditors and their report thereon, dated May 26, 2016, expressed an unmodified opinion.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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.

***BKD, LLP***

Colorado Springs, Colorado  
September 26, 2017

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2016 and 2015**

**Introduction**

This management's discussion and analysis of the financial performance of the Colorado State Veterans Nursing Home (the Nursing Home) provides an overview of the Nursing Home's financial activities for the years ended December 31, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Nursing Home. The Nursing Home is a component unit of Huerfano County Hospital District (the District), which operates the Nursing Home and Spanish Peaks Regional Health Center (the Hospital).

**Financial Highlights**

- The average daily census decreased from 103 in 2015 to 92 in 2016
- Expenses exceeded revenues by \$70,750 in 2016, compared with an excess of revenues over expenses of \$994,663 in 2015

**Financial Statements**

The Nursing Home's financial statements consist of three statements: a *statement of net position*, a *statement of revenues, expenses and changes in net position* and a *statement of cash flows*. These statements provide information about the activities of the Nursing Home, including resources held by the Nursing Home but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Nursing Home is accounted for as a business-type activity and presents its financial statements using the accrual basis of accounting.

The *statement of net position* presents information on the Nursing Home's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may indicate whether the financial position of the Nursing Home is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents both the operating revenues and expenses and non-operating revenues and expenses along with other changes in net position for the year. This statement is an indication of the success of the Nursing Home's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, non-capital financing activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the Nursing Home's cash receipts and cash payments during the year.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2016 and 2015**

The Nursing Home's net position is the difference between its assets and liabilities reported in the statement of net position, as shown below:

**Table 1: Assets, Liabilities and Net Position**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
Cash and restricted cash	\$ 200,208	\$ 419,025	\$ 467,563
Patient accounts receivable, net	499,139	731,397	989,749
Receivable from Veteran's Health Administration	165,689	339,633	739,085
Other current assets	-	-	8,516
Capital assets, net	<u>3,894,816</u>	<u>4,241,203</u>	<u>4,551,779</u>
Total assets	<u>\$ 4,759,852</u>	<u>\$ 5,731,258</u>	<u>\$ 6,756,692</u>
<b>Liabilities</b>			
Current liabilities	\$ 225,923	\$ 197,761	\$ 328,384
Long-term portion of capital lease obligation	<u>473,585</u>	<u>563,052</u>	<u>646,610</u>
Total liabilities	<u>699,508</u>	<u>760,813</u>	<u>974,994</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	3,338,466	3,594,337	3,823,418
Restricted expendable	38,399	50,568	43,508
Unrestricted	<u>683,479</u>	<u>1,325,540</u>	<u>1,914,772</u>
Total net position	<u>4,060,344</u>	<u>4,970,445</u>	<u>5,781,698</u>
Total liabilities and net assets	<u>\$ 4,759,852</u>	<u>\$ 5,731,258</u>	<u>\$ 6,756,692</u>

In 2016, cash balances decreased due mainly to the drop in average daily census from 103 residents in 2015, to 92 in 2016.

Capital assets, net of depreciation, decreased by \$346,387 and \$310,576 during 2016 and 2015, respectively, due to depreciation expense in excess of additions. See further discussion under Capital Assets and Debt Administration below.

Current liabilities increased by \$28,182, or 14%, in 2016 primarily due to an increase in accounts payable. Current liabilities decreased in 2015 by \$130,623, or 40%, due to a decrease in advance payments by residents.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2016 and 2015**

**Operating Results and Changes in the Nursing Home's Net Position**

The Nursing Home's net position decreased by \$910,101 in 2016, compared with a decrease in 2015 of \$811,253 and an increase in 2014 of \$538,863. These changes in net position are made up of different components as follows:

**Table 2: Operating Results and Changes in Net Assets**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 8,842,296	\$ 9,304,272	\$ 8,909,333
Veterans Health Administration grant revenue	<u>1,911,707</u>	<u>2,260,248</u>	<u>2,567,575</u>
Total operating revenues	<u>10,754,003</u>	<u>11,564,520</u>	<u>11,476,908</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	7,002,727	7,214,351	7,120,791
Purchased services and professional fees	595,970	479,790	412,484
Supplies and other	2,845,515	2,623,743	2,693,050
Depreciation and amortization	<u>379,543</u>	<u>369,006</u>	<u>351,451</u>
Total operating expenses	<u>10,823,755</u>	<u>10,686,890</u>	<u>10,577,776</u>
<b>Operating Income (Loss)</b>	<u>(69,752)</u>	<u>877,630</u>	<u>899,132</u>
<b>Nonoperating Revenues (Expenses)</b>	(998)	117,033	5,937
<b>Transfer to Spanish Peaks Regional Health Center</b>	<u>(839,351)</u>	<u>(1,805,916)</u>	<u>(366,206)</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ (910,101)</u>	<u>\$ (811,253)</u>	<u>\$ 538,863</u>

The first component of the overall change in the Nursing Home's net position is its operating income or loss – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. During 2016, the Nursing Home realized a loss from operations of \$69,752 compared with income from operations of \$877,630 and \$899,132 in 2015 and 2014, respectively. The Nursing Home had an excess of expenses over revenues of \$70,750 during 2016, as compared with revenues exceeding expenses of \$994,663 and \$905,069 in 2015 and 2014, respectively.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2016 and 2015**

The primary components of the excess of expenses over revenues for 2016 and the excess revenues over expenses for 2015 are as follows:

- A decrease in operating revenues of \$810,517, or 7%, in 2016 and an increase in operating revenues of \$87,612, or 1%, in 2015:
  - 2016 – The operating revenue decrease is a direct result of the 10% drop in Nursing Home resident days or 10% decrease in the average daily census of 92 in 2016 compared to 103 in 2015.
  - 2015 – A resident charge rate increase of approximately 4% was implemented in July 2015. The Veterans Administration grant payment per day rose from \$100.37 to \$102.38 in October 2014 and rose to \$103.61 in October 2015. These rate increases helped offset the effects of the decrease in the Nursing Home's patient census.
  
- An increase in operating expenses of \$136,865 and \$109,114 in 2016 and 2015, respectively.
  - 2016 – Purchased Services related to the start-up cost for the computer conversion required running parallel platforms specifically related to the nursing home were payroll, time and attendance, human resources, general ledger, fixed assets and executive support systems.
  - 2015 – Salaries and benefits increased by \$93,560 due to the annual 2% merit increase, however the lower census caused lower staffing levels which offset the 2%, causing an overall decrease in salaries in wages.
  - A greater emphasis has been placed on marketing the Nursing Home resulting in higher advertising expenditures. The competitive labor market has generated greater turnover resulting in higher staff recruitment costs.

**Capital Assets and Debt Administration**

At December 31, 2016 and 2015, the Nursing Home had \$3,894,816 and \$4,241,203 respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2016 and 2015, the Nursing Home acquired capital assets of \$33,156 and \$58,430, respectively. As of December 31, 2016 and 2015, the Nursing Home had a capital lease obligation of \$556,350 and \$646,866, respectively (see further information in Note 6 to the financial statements).

**Other Economic Factors**

A change in population of Veterans, specifically WWII, has presented a challenge to the census of the Nursing Home. Declining numbers, as well as those residents who have resided in the Nursing Home and have passed away, are preventing a growth in census. In addition, younger Veterans who have long-term care needs, but have behaviors and challenges of care needs, are creating complications in the acceptance of those Veterans. Also, since the Veterans Health Administration requires the population of Veterans in the Nursing Home to be at least 75%, there is an inability to bring in non-Veteran related residents; *i.e.* spouses, widows, Gold Star Parents.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2016 and 2015**

Recent demographic studies have indicated that the aged population is increasing in Huerfano County which means that the number of aging veterans is also increasing in the local area. This trend combined with renewed marketing efforts has enabled the Nursing Home to maintain a relatively consistent resident census. There is an increasing demand by the senior community for single occupancy rooms. The Nursing Home is currently reviewing the feasibility of converting existing semi-private rooms or constructing additional private rooms. Management believes that these factors, combined with program enhancements discussed below, will enable the Nursing Home to maintain or increase current census levels.

In an effort to improve the lives of residents in the Nursing Home, Nursing Home personnel are continuing their efforts to achieve a more home-like environment. The Nursing Home has adopted the Eden Alternative program philosophies for its day-to-day operations. The new environment is intended to provide residents more independence in their day-to-day lives.

Korean and Vietnam War Veterans have been found to require increased mental health support. Beginning in 2014, the Nursing Home has been providing enhanced mental health programs to meet the needs of current and future residents.

**Contacting the Nursing Home's Financial Management**

This financial report is designed to provide a general overview and accountability for the monies received by the Nursing Home for patients, suppliers, taxpayers and creditors. If you have any questions about this report or need additional financial information, contact District Administration at 719.738.4500.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Statements of Net Position**  
**December 31, 2016 and 2015**

**Assets**

	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 78,670	\$ 284,040
Cash held for residents	83,139	84,417
Patient accounts receivable, net of allowance; 2016 and 2015 - \$5,061	499,139	731,397
Receivable from Veterans Health Administration	165,689	339,633
Total current assets	826,637	1,439,487
<b>Noncurrent Cash</b>		
Cash restricted by donors	38,399	50,568
<b>Capital Assets, Net</b>		
	3,894,816	4,241,203
Total assets	\$ 4,759,852	\$ 5,731,258

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 60,019	\$ 29,530
Current portion of capital lease obligation	82,765	83,814
Deposits from residents	83,139	84,417
Total current liabilities	225,923	197,761
<b>Capital Lease Obligation</b>		
	473,585	563,052
Total liabilities	699,508	760,813
<b>Net Position</b>		
Invested in capital assets, net of related debt	3,338,466	3,594,337
Restricted expendable	38,399	50,568
Unrestricted	683,479	1,325,540
Total net position	4,060,344	4,970,445
Total liabilities and net position	\$ 4,759,852	\$ 5,731,258

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>		
Net patient service revenue	\$ 8,842,296	\$ 9,304,272
Veterans Health Administration grant revenue	<u>1,911,707</u>	<u>2,260,248</u>
Total operating revenues	<u>10,754,003</u>	<u>11,564,520</u>
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	7,002,727	7,214,351
Purchased services and professional fees	595,970	479,790
Supplies and other	2,845,515	2,623,743
Depreciation and amortization	<u>379,543</u>	<u>369,006</u>
Total operating expenses	<u>10,823,755</u>	<u>10,686,890</u>
<b>Operating Income (Loss)</b>	<u>(69,752)</u>	<u>877,630</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest expense	(16,580)	(17,363)
Noncapital grants and gifts	15,567	19,576
Other	<u>15</u>	<u>114,820</u>
Total nonoperating revenues (expenses)	<u>(998)</u>	<u>117,033</u>
<b>Excess (Deficiency) of Revenues Over Expenses Before Transfers</b>	(70,750)	994,663
<b>Transfer to Spanish Peaks Regional Health Center</b>	<u>(839,351)</u>	<u>(1,805,916)</u>
<b>Decrease in Net Position</b>	(910,101)	(811,253)
<b>Net Position, Beginning of Year</b>	<u>4,970,445</u>	<u>5,781,698</u>
<b>Net Position, End of Year</b>	<u>\$ 4,060,344</u>	<u>\$ 4,970,445</u>

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 9,074,554	\$ 9,562,624
Payments to suppliers and contractors	(3,410,996)	(3,189,253)
Payments to employees	(7,002,727)	(7,214,351)
Other receipts, net	2,085,371	2,621,250
Net cash provided by operating activities	746,202	1,780,270
<b>Noncapital Financing Activities</b>		
Transfer to Spanish Peaks Regional Health Center	(839,351)	(1,805,916)
Noncapital grants and gifts	15,567	19,576
Other	(983)	114,820
Net cash used in noncapital financing activities	(824,767)	(1,671,520)
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(33,156)	(58,430)
Repayment of capital lease obligation	(90,516)	(81,495)
Interest paid	(16,580)	(17,363)
Net cash used in capital and related financing activities	(140,252)	(157,288)
<b>Decrease in Cash and Cash Equivalents</b>	(218,817)	(48,538)
<b>Cash and Cash Equivalents, Beginning of Year</b>	419,025	467,563
<b>Cash and Cash Equivalents, End of Year</b>	\$ 200,208	\$ 419,025

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Statements of Cash Flows (continued)**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 78,670	\$ 284,040
Cash held for residents	83,139	84,417
Cash restricted by donors	38,399	50,568
Total cash and cash equivalents	\$ 200,208	\$ 419,025
<b>Reconciliation of Operating Income (Loss) to</b>		
<b>Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (69,752)	\$ 877,630
Depreciation and amortization	379,543	369,006
Provision (recovery) for uncollectible accounts	(15,853)	-
Changes in operating assets and liabilities		
Patient accounts receivable	248,111	258,352
Receivable from Veterans Health Administration	173,944	399,452
Accounts payable and accrued liabilities	30,489	(85,720)
Other assets and liabilities	998	8,516
Deposits from residents	(1,278)	(46,966)
Net cash provided by operating activities	\$ 746,202	\$ 1,780,270

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations and Reporting Entity***

Colorado State Veterans Nursing Home (the Nursing Home) is a 120-bed nursing facility owned by the State of Colorado and operated by the Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the District). The Nursing Home is considered to be a component unit of the District and is included as a blended component unit in the District's financial statements. The Nursing Home is located adjacent to the Spanish Peaks Regional Health Center (the Hospital) in Walsenburg, Colorado. The Hospital is also operated by the District.

In November 1993, the District entered into an operating contract with the State of Colorado for the benefit of the Department of Human Services. Under the terms of the contract, the District is responsible for the costs associated with operating the facility; in return, all revenue, bank accounts and receivables accrue to the benefit of the District. The term of the contract is 20 years and is renewable at the District's option for successive 10-year terms up to 99 years from the original commencement date. These financial statements present the financial position including buildings and equipment and results of operations and cash flows for the Nursing Home without regard to its legal form of ownership.

Expenditures made in excess of revenues earned by the Nursing Home are the responsibility of the District. Thus, losses, if any, of the Nursing Home are funded by the District.

***Basis of Accounting and Presentation***

The financial statements of the Nursing Home have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations) and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Nursing Home first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

***Use of Estimates***

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

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

***Cash Equivalents***

The Nursing Home considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2016 and 2015, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

***Risk Management***

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

***Patient Accounts Receivable***

The Nursing Home reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Nursing Home provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Nursing Home:

Buildings and leasehold improvements	10 – 40 years
Equipment	3 – 10 years

***Net Position***

Net position of the Nursing Home is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Nursing Home, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

***Net Patient Service Revenue***

The Nursing Home has agreements with third-party payers that provide for payments to the Nursing Home at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Income Taxes***

As an essential government function of the County, the Nursing Home is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Nursing Home is subject to federal income tax on any unrelated business taxable income.

***Nursing Home Cost Allocations***

Costs for the use of shared facilities, common areas and joint operations are allocated between the Nursing Home and the Hospital in accordance with Medicare and Medicaid principles and guidelines. Allocation basis, such as direct salary dollars, square footage, number of meals, laundry pounds and telephone lines are used to allocate the costs accumulated in the various departments between the two facilities.

***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

**Note 2: Net Patient Service Revenue**

The Nursing Home has agreements with third-party payers that provide for payments to the Nursing Home at amounts different from its established rates. Approximately 53% and 49% of net patient service revenues are from participation in the Medicaid program for each of the years ended December 31, 2016 and 2015, respectively. Nursing Home services rendered to Medicaid program beneficiaries are paid at a prospectively determined per diem rate. The Nursing Home is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Nursing Home and audits thereof by the Medicaid fiscal intermediary.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 3: Patient Accounts Receivable**

The Nursing Home grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2016 and 2015 consisted of:

	<b>2016</b>	<b>2015</b>
Medicaid	\$ 290,168	\$ 287,404
Veterans Health Administration	254,042	445,578
Patients	20,253	33,739
	564,463	766,721
Less allowance for contractuels and uncollectible accounts	(65,324)	(35,324)
	<b>\$ 499,139</b>	<b>\$ 731,397</b>

**Note 4: Deposits and Investments**

***Deposits***

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Nursing Home's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The Colorado Public Deposit Protection Act (the PDPA) requires financial institutions to collateralize any uninsured public deposits. The bank balance is insured by federal insurance (FDIC) for up to \$250,000 for interest and noninterest bearing accounts. Any excess of deposits accounts over the FDIC limit that is not insured is covered by collateral pledged by the financial institution in accordance with the PDPA.

At December 31, 2016 and 2015, all bank balances of \$217,520 and \$430,048, respectively, were insured by the FDIC.

***Investments***

The District may legally invest in certificates of deposit, money market accounts and direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. It may also invest to a limited extent in equity securities. As of December 31, 2016 and 2015, the Nursing Home had no investments.

**Colorado State Veterans Nursing Home**  
(A Component Unit of Huerfano County Hospital District)

**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2016 and 2015 were:

	<b>2016</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Buildings and leasehold improvements	\$ 11,477,575	\$ 10,941	\$ -	\$ -	\$ 11,488,516
Equipment	1,194,671	8,249	-	-	1,202,920
Construction in progress	-	13,966	-	-	13,966
	<u>12,672,246</u>	<u>33,156</u>	<u>-</u>	<u>-</u>	<u>12,705,402</u>
Less accumulated depreciation					
Buildings and leasehold improvements	7,509,979	268,107	-	-	7,778,086
Equipment	921,064	111,436	-	-	1,032,500
	<u>8,431,043</u>	<u>379,543</u>	<u>-</u>	<u>-</u>	<u>8,810,586</u>
Capital assets, net	<u>\$ 4,241,203</u>	<u>\$ (346,387)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,894,816</u>
	<b>2015</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Buildings and leasehold improvements	\$ 11,434,817	\$ 42,758	\$ -	\$ -	\$ 11,477,575
Equipment	1,133,424	15,672	-	45,575	1,194,671
Construction in progress	45,575	-	-	(45,575)	-
	<u>12,613,816</u>	<u>58,430</u>	<u>-</u>	<u>-</u>	<u>12,672,246</u>
Less accumulated depreciation					
Buildings and leasehold improvements	7,242,687	267,292	-	-	7,509,979
Equipment	819,350	101,714	-	-	921,064
	<u>8,062,037</u>	<u>369,006</u>	<u>-</u>	<u>-</u>	<u>8,431,043</u>
Capital assets, net	<u>\$ 4,551,779</u>	<u>\$ (310,576)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,241,203</u>

**Note 6: Capital Lease Obligation**

The Nursing Home is obligated under a lease for buildings and equipment that is accounted for as a capital lease. Assets under capital lease at December 31, 2016 and 2015, totaled \$1,133,927, net of accumulated depreciation of \$548,005 and \$487,669, respectively.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

The following is a summary of capital lease obligation transactions for the Nursing Home for the years ended December 31:

		<b>2016</b>			
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Long-term debt	Capital lease obligations	\$ 646,866	\$ -	\$ (90,516)	\$ 556,350
		<b>2015</b>			
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Long-term debt	Capital lease obligations	\$ 728,361	\$ -	\$ (81,495)	\$ 646,866

The following is a schedule by year of future minimum lease payments under the capital lease as of December 31, 2016:

<b>Year Ending December 31,</b>	
2017	\$ 106,742
2018	106,742
2019	106,742
2020	106,742
2021	106,742
2022	105,374
Total minimum lease payments	639,084
Less amount representing interest	82,734
Present value of future minimum lease payments	\$ 556,350

**Note 7: Restricted Net Position**

Restricted net position consists of assets restricted for the purpose of resident needs. Restricted net position totaled \$38,399 and \$50,568 at December 31, 2016 and 2015, respectively.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**Note 8: Related-party Transactions**

During the years ended December 31, 2016 and 2015, all amounts transferred and allocations of expenses between the Hospital and the Nursing Home are recorded as transfers to the Hospital and totaled \$839,351 and \$1,805,916, respectively.

**Note 9: Pension Plan**

The District has established and administers the Spanish Peaks Regional Health Center 403(b) Plan (the Plan), a defined contribution plan. Benefit terms may be amended by the District. For all full-time employees meeting the eligibility requirements of the Plan, the employer will make matching contributions of up to 50% of the first 6% of compensation deferred under the compensation reduction election of the employee into the Plan. Employees are permitted to make contributions to the pension plan, up to applicable Internal Revenue Code limits. Employees are immediately vested in their own contributions and earnings on those contributions. Employer contributions into the Plan are subject to a five-year graded vesting schedule. Non-vested employer contributions are forfeited upon termination of employment. Forfeitures are used to reduce the employer contributions. Except as permitted under the Plan, distributions from an employee's account may not be made earlier than the earliest date on which the employee has severance from employment, dies, becomes disabled, or attains age 59½. Contribution rates for plan members and the District expressed as a percentage of covered payroll were 7.97% and 2.82% for 2016 and 8.04% and 2.74% for 2015, respectively. Contributions actually made by plan members and the District aggregated \$631,498 and \$214,090 during 2016 and \$592,301 and \$196,314 during 2015, respectively. Of the amounts contributed to the Plan by the District, \$73,999 and \$83,866 were allocated to accounts for the benefit of Nursing Home employees in the years ended December 31, 2016 and 2015, respectively.

**Note 10: Nursing Home Expense Reserve Account**

Under the terms of the operating contract with the State of Colorado, the District is required to establish and fund an expense reserve account, under control of the state, to fund operations should the state be required to assume control of the Nursing Home. The District is required to make annual payments equal to one-half of the Nursing Home's average monthly net accounts receivable balance. The annual payments are to be made until the balance in the fund equals \$660,000. The District is allowed to borrow, interest free, up to 75% of the amount in the account. The balance in the expense reserve account (net of outstanding loans) was \$257,350 at December 31, 2016 and 2015, and is included in non-current cash and investments in the District financial statements. Accordingly, the District had net borrowings from the account of \$402,650 at December 31, 2016 and 2015. Should the state assume control of the Nursing Home, the District would be required to repay the amount borrowed.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**Note 11: Veterans Health Administration Grant Revenue**

The Nursing Home receives grant revenues from the Veterans Health Administration for the purpose of providing nursing home care to eligible veterans. For the years ended December 31, 2016 and 2015, such grant revenue totaled \$1,911,707 and \$2,260,248, respectively, and is recorded as operating revenue in the accompanying financial statements.

**Note 12: Contingencies**

In the normal course of business, the Nursing Home is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Nursing Home's commercial insurance. The Nursing Home evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.