

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center**

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015

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

December 31, 2016 and 2015

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Independent Auditor's Report on Financial Statements and Supplementary Information

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

Report on the Financial Statements

We have audited the accompanying financial statements of Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the 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 Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statements of net position and the related combining statements of revenues, expenses, and changes in net position, the budget and actual revenues and expenses, and the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information including the schedule of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The supplementary information for the year ended December 31, 2015 was audited by other

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

auditors whose report dated May 26, 2016, expressed an unmodified opinion on such information in relation to the basic financial statements for the year ended December 31, 2015, taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017 on our consideration of the District's internal control over financial reporting and our tests of 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 that 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 the District's internal control over financial reporting and compliance.

BKD, LLP

Colorado Springs, Colorado
September 26, 2017

Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2016 and 2015

Introduction

This management's discussion and analysis of the financial performance of Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the District) provides an overview of the District'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 District. Separate financial statements of Colorado State Veterans Nursing Home (the Nursing Home), a component unit of Huerfano County Hospital District, can be obtained by contacting the District's Financial Management.

Financial Highlights

- Cash and investments decreased in 2016 by \$1,328,068, or 22%, and increased in 2015 by \$1,212,309, or 26%.
- The District's net position decreased in each of the past two years with a \$3,472,150, or 23%, decrease in 2016, and \$544,723, or 4%, decrease in 2015.
- The District reported operating losses in both 2016 and 2015 of \$4,234,611 and \$1,460,132, respectively.
- Net nonoperating revenues decreased by \$116,725, or 13%, in 2016 compared to 2015, and increased by \$126,337, or 17%, in 2015 compared to 2014.

Using This Annual Report

The District's financial statements consist of three statements – the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. These statements 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 accrual basis of accounting.

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

One of the most important questions asked about any organization's finances is "Is the organization 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 assets report 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 means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Management’s Discussion and Analysis (Unaudited)
Years Ended December 31, 2016 and 2015**

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

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The District’s Net Position

The District’s combined net position, the difference between its assets and liabilities reported in the statements of net position, decreased by \$3,472,150, or 23%, over 2015, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2016	2015	2014
Assets			
Cash and investments	\$ 4,588,076	\$ 5,916,144	\$ 4,703,835
Patient accounts receivable, net	2,682,859	2,999,514	3,754,980
Other current assets	1,833,367	2,079,141	3,057,680
Capital assets, net	<u>11,162,419</u>	<u>10,437,849</u>	<u>11,350,944</u>
Total assets	<u>\$ 20,266,721</u>	<u>\$ 21,432,648</u>	<u>\$ 22,867,439</u>
Liabilities			
Current and noncurrent liabilities	\$ 4,190,848	\$ 3,384,109	\$ 3,826,377
Long-term debt	<u>4,225,970</u>	<u>2,719,721</u>	<u>3,185,855</u>
Total liabilities	<u>8,416,818</u>	<u>6,103,830</u>	<u>7,012,232</u>
Deferred Inflows - Deferred Property Tax Revenue	<u>436,869</u>	<u>443,634</u>	<u>425,300</u>
Total liabilities and deferred inflows of resources	<u>8,853,687</u>	<u>6,547,464</u>	<u>7,437,532</u>

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Management’s Discussion and Analysis (Unaudited)
Years Ended December 31, 2016 and 2015**

Table 1: Assets, Liabilities and Net Assets (continued)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Position			
Net investment in capital assets	6,480,034	7,243,160	7,850,729
Restricted expendable	1,795,749	1,807,918	1,790,313
Unrestricted	<u>3,137,251</u>	<u>5,834,106</u>	<u>5,788,865</u>
 Total net position	 <u>11,413,034</u>	 <u>14,885,184</u>	 <u>15,429,907</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 20,266,721</u>	 <u>\$ 21,432,648</u>	 <u>\$ 22,867,439</u>

The decrease in assets is primarily due to the decrease in cash and decrease in patient accounts deemed collectible. The decrease in cash was caused by a combination of the decrease in the provider fee payments, increase in expenses and decrease in the Nursing Home census. The decrease in net patient accounts receivable was the result of increasing the allowance for uncollectable patient billing. The uncollectable patient billing was caused by back-to-back computer conversions spanning multiple years.

A significant change in the District’s financial position in 2016 was the increase in capital assets and related long-term debt obligations for the Meditech conversion.

Operating Results and Changes in the District’s Net Position

In 2016, the District’s net position decreased by \$3,472,150, compared to a decrease in 2015 of \$544,723 and increase in 2014 of \$490,546, as shown in Table 2. This decrease is made up of several different components.

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2016 and 2015**

Table 2: Operating Results and Changes in Net Assets

	2016	2015	2014
Operating Revenues			
Net patient service revenue	\$ 21,156,267	\$ 22,592,722	\$ 21,943,562
Other operating revenues	<u>2,253,226</u>	<u>2,559,953</u>	<u>3,051,022</u>
Total operating revenues	<u>23,409,493</u>	<u>25,152,675</u>	<u>24,994,584</u>
Operating Expenses			
Salaries, wages and employee benefits	18,389,783	17,865,807	17,221,791
Purchased services and professional fees	2,425,420	2,035,523	1,607,722
Supplies and other	5,601,873	5,490,204	5,185,249
Depreciation and amortization	<u>1,227,028</u>	<u>1,221,273</u>	<u>1,242,125</u>
Total operating expenses	<u>27,644,104</u>	<u>26,612,807</u>	<u>25,256,887</u>
Operating Loss	<u>(4,234,611)</u>	<u>(1,460,132)</u>	<u>(262,303)</u>
Nonoperating Revenues (Expenses)			
Property taxes	461,983	454,646	441,647
Investment income	8,507	8,633	29,197
Noncapital grants and gifts	477,344	453,023	440,060
Interest expense	(185,388)	(147,170)	(172,148)
Other nonoperating revenues and expenses, net	<u>15</u>	<u>110,054</u>	<u>14,093</u>
Total nonoperating revenues	<u>762,461</u>	<u>879,186</u>	<u>752,849</u>
Capital Grants and Gifts			
Capital grants	<u>-</u>	<u>36,223</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ (3,472,150)</u>	<u>\$ (544,723)</u>	<u>\$ 490,546</u>

Operating Losses

The first component of the overall change in the District'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. In each of the past three years, the District has reported an operating loss. This is consistent with the District's recent operating history as the District was formed and is operated primarily to serve residents of Huerfano County and the surrounding area. The District levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

**Huerfano County Hospital District d/b/a
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Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2016 and 2015**

The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$1,436,455, or 6%, in 2016 and an increase in net patient service revenue of \$649,160, or 3%, in 2015.
 - 2016 – An increase of approximately \$2.8 million in allowance for doubtful patients accounts to include out of timely patient claims, bad debts as well as 506% increase in third party reserves contributed to the drop in net patient service revenue.
 - 2015 – An increase of approximately \$1.5 million in patient write-offs, to include out of timely patient claims, bad debts, and third party reserves, held the net patient service revenue to a flat 3% increase.
- An increase in salaries and wages for the District's employees of \$523,976, or 3%, in 2016 and \$644,016, or 4%, in 2015.
 - 2016 – A consistent 2% merit adjustment was awarded to employees during 2016 fiscal year. In addition, the District recruited a new Family Practice Physician, CEO, CFO, Revenue Cycle Director and Chief Nursing Officer.
 - 2015 – A consistent 2% merit adjustment was awarded to employees during 2015 fiscal year. In addition, the District recruited two full time physicians and respective supporting staff.
- An increase in purchased services and professional fees of \$389,897, or 19%, in 2016 and \$427,801, or 27%, in 2015.
 - 2016 – The start-up cost for the computer conversion required running parallel platforms, systems and the need of third party vendors for the majority of the year. This included system support, coding and additional billing services.
 - 2015 – An increase primarily due to contracted therapy services, coding services and additional accounting services.
- The District had a significant decrease in surgery visits by 33% in 2016 compared to 2015. Supply costs increased by 21% in 2016 compared to 2015, led by the increase in pharmaceutical cost and computer equipment upgrades.
- The reduction in the States Provider Fee is forcing Huerfano County Hospital District to implement deep budget cuts in operations to help keep up in the increase of providing quality healthcare in the community. In the past two years, the Provider Fee has decreased by over 50%.

**Huerfano County Hospital District d/b/a
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Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2016 and 2015**

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, interest expense, and noncapital grants and gifts, all of which remained relatively consistent in 2016 as compared to 2015.

Capital grants and gifts totaled \$0 and \$36,223 for the years ended December 31, 2016 and 2015, respectively.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2016, 2015 and 2014, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2016, the District had \$11,162,419 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2016, the District purchased a new large-scale multi-modular computer system that included Electronic Medical Records, multiple patient modules, Billing, Physician Documentation, Laboratory, Pharmacy, Payroll/Personnel, Patient Quality Management, Physician Clinic EMR, General Ledger, Accounts Payable and Executive Support Systems.

Debt

At December 31, 2016, the District had \$5,182,385 in notes payable, capital lease and line of credit obligations outstanding. During 2016, the District entered in to a Line of Credit Promissory Note with Parkview Medical Center for \$1.7 million and a three-year term maturity date of August 28, 2019.

Other Economic Factors

To help reduce costs and achieve financial excellence in operations, senior management in 2016 adopted the Studer Group principles engaged in 2015. The principles build a foundation of leadership with training for all levels of management including the Board of Directors, Upper and Middle management.

Hospital management continues to strive to offset the negative impact to revenues resulting from increased patient responsibility for healthcare services. This has occurred from the ever-increasing co-payments and deductibles inherent in health plan coverage. To offset this risk, the District is attempting to obtain funds from alternate sources, such as grants and ad valorem taxes. These monies will be spent to maintain our current level of patient care services and provide for needed capital acquisition and replacement.

**Huerfano County Hospital District d/b/a
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Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2016 and 2015**

With cost reductions and/or containment always being considered by both the federal government and state government, it is necessary that management continue to review and respond to pending legislation that concerns funding levels for the Medicare and Medicaid programs.

In 2016, the District continued to build networks with surrounding healthcare systems and coalitions because of the changing healthcare environment. Collaborating with other facilities and organizations will be essential to our present and future efforts to provide high quality, efficient and effective healthcare to our community.

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 money it receives. Questions about this report and requests for additional financial information should be directed to the District Administration at 719.738.5144.

**Huerfano County District Hospital
d/b/a Spanish Peaks Regional Health Center**

**Statements of Net Position
December 31, 2016 and 2015**

Assets

	2016	2015
Current Assets		
Cash and cash equivalents	\$ 97,925	\$ 833,036
Cash held for residents	83,139	84,417
Patient accounts receivable, net of allowance; 2016 - \$446,998 and 2015 - \$664,499	2,682,859	2,999,514
Property taxes receivable	436,869	443,634
Electronic health records incentives receivable	46,664	101,570
Supplies	436,764	453,251
Other current assets	913,070	1,080,686
Total current assets	4,697,290	5,996,108
Noncurrent Cash and Investments		
Internally designated	2,611,263	3,190,773
Assets whose use is limited		
Investments held as collateral on long-term debt	1,500,000	1,500,000
Held by Colorado State Treasurer	257,350	257,350
Cash restricted by donors	38,399	50,568
Total noncurrent cash and investments	4,407,012	4,998,691
Capital Assets, Net	11,162,419	10,437,849
Total assets	\$ 20,266,721	\$ 21,432,648

**Huerfano County District Hospital
d/b/a Spanish Peaks Regional Health Center
Statements of Net Position (continued)
December 31, 2016 and 2015**

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2016</u>	<u>2015</u>
Current Liabilities		
Accounts payable	\$ 845,000	\$ 1,083,856
Accrued expenses and other current liabilities	1,839,128	1,495,238
Current maturities of long-term debt	456,415	474,968
Line of credit, current	500,000	-
Estimated third-party payer settlements	417,166	68,863
Provider fees payable	50,000	176,767
Deposits from residents	83,139	84,417
	<hr/>	<hr/>
Total current liabilities	4,190,848	3,384,109
Line of Credit, Long-term	1,801,611	-
Long-term Debt	<hr/>	<hr/>
	2,424,359	2,719,721
	<hr/>	<hr/>
Total liabilities	8,416,818	6,103,830
Deferred Inflows of Resources		
Deferred property tax revenues	436,869	443,634
	<hr/>	<hr/>
Total liabilities and deferred inflows of resources	8,853,687	6,547,464
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	6,480,034	7,243,160
Restricted	1,795,749	1,807,918
Unrestricted	3,137,251	5,834,106
	<hr/>	<hr/>
Total net position	11,413,034	14,885,184
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources and net position	<u>\$ 20,266,721</u>	<u>\$ 21,432,648</u>

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 - \$680,904 and 2015 - \$1,147,081	\$ 21,156,267	\$ 22,592,722
Other operating revenue	<u>2,253,226</u>	<u>2,559,953</u>
Total operating revenues	<u>23,409,493</u>	<u>25,152,675</u>
Operating Expenses		
Salaries, wages and employee benefits	18,389,783	17,865,807
Purchased services and professional fees	2,425,420	2,035,523
Supplies and other	5,601,873	5,490,204
Depreciation	<u>1,227,028</u>	<u>1,221,273</u>
Total operating expenses	<u>27,644,104</u>	<u>26,612,807</u>
Operating Loss	<u>(4,234,611)</u>	<u>(1,460,132)</u>
Nonoperating Revenues (Expenses)		
Property taxes	461,983	454,646
Investment income	8,507	8,633
Interest expense	(185,388)	(147,170)
Noncapital grants and gifts	477,344	453,023
Other	<u>15</u>	<u>110,054</u>
Total nonoperating revenues (expenses)	<u>762,461</u>	<u>879,186</u>
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(3,472,150)	(580,946)
Capital Grants and Gifts	<u>-</u>	<u>36,223</u>
Decrease in Net Position	(3,472,150)	(544,723)
Net Position, Beginning of Year	<u>14,885,184</u>	<u>15,429,907</u>
Net Position, End of Year	<u>\$ 11,413,034</u>	<u>\$ 14,885,184</u>

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

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	\$ 21,694,458	\$ 24,333,936
Payments to suppliers and contractors	(8,249,662)	(7,403,768)
Payments to employees	(18,045,893)	(17,834,796)
Other receipts, net	2,413,779	2,565,232
Net cash provided by (used in) operating activities	(2,187,318)	1,660,604
Noncapital Financing Activities		
Property taxes supporting operations	461,983	454,646
Noncapital grants and gifts	477,344	453,023
Borrowings on line of credit	900,000	250,000
Payments on line of credit	(400,000)	(1,000,000)
Other	15	110,054
Net cash provided by noncapital financing activities	1,439,342	267,723
Capital and Related Financing Activities		
Grants and contributions restricted for capital assets	-	36,223
Borrowings on line of credit	1,811,611	-
Payments on line of credit	(10,000)	-
Principal paid on long-term debt	(313,915)	(305,526)
Interest paid	(124,697)	(147,170)
Purchase of capital assets	(1,951,598)	(308,178)
Net cash used in capital and related financing activities	(588,599)	(724,651)
Investing Activities		
Investment income	8,507	8,633
Purchase of investments	(790,000)	(830,000)
Proceeds from maturities of investments	790,000	830,000
Net cash provided by investing activities	8,507	8,633
Increase (Decrease) in Cash and Cash Equivalents	(1,328,068)	1,212,309
Cash and Cash Equivalents, Beginning of Year	3,626,144	2,413,835
Cash and Cash Equivalents, End of Year	\$ 2,298,076	\$ 3,626,144

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

Statements of Cash Flows (continued) Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 97,925	\$ 833,036
Cash held for residents	83,139	84,417
Cash and cash equivalents in noncurrent cash and investments		
Held by Colorado State Treasurer	257,350	257,350
Cash restricted by donors	38,399	50,568
Internally designated	1,821,263	2,400,773
Total cash and cash equivalents	\$ 2,298,076	\$ 3,626,144
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (4,234,611)	\$ (1,460,132)
Depreciation	1,227,028	1,221,273
Provision for uncollectible accounts	680,904	1,147,081
Changes in operating assets and liabilities		
Patient accounts receivable	(364,249)	755,466
Estimated amounts due from and to third-party payers	221,536	(144,962)
Accounts payable and other current liabilities	44,343	162,285
Other assets and liabilities	237,731	(20,407)
Net cash provided by (used in) operating activities	\$ (2,187,318)	\$ 1,660,604

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

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

Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the District) is a political subdivision formed under the Colorado Revised Statutes as a local service and improvement district to provide medical care to the residents of Huerfano County, Colorado, including Walsenburg. The District supports and operates the Spanish Peaks Hospital (the Hospital), a 20-bed facility that is certified as a Critical Access Hospital. In addition, a 120-bed Colorado State Veterans Nursing Home (the Nursing Home) is operated by the District adjacent to the Hospital. The District has component units, but is not a component unit of another governmental entity.

In November 1993, the District entered into a contract for the operation of the Nursing Home 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.

As discussed above, expenditures made in excess of revenues earned by the Nursing Home are the responsibility of the District.

The District is organized to finance and operate a hospital and a nursing home. As required by accounting principles generally accepted in the United States of America, these financial statements present the District and each of its component units. The component units are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. The separate financial statements of each component unit are presented as supplemental information in the accompanying combining financial statements.

Basis of Accounting and Presentation

The financial statements of the District 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), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net positions when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

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

Notes to Financial Statements December 31, 2016 and 2015

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.

Cash Equivalents

The District 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.

Property Taxes

The District received approximately 2% of its financial support from property taxes in 2016 and 2015. These funds were used to support operations.

Property taxes are assessed in January and are due in one installment on April 30 or in two installments on February 28 and June 15 of each year. Property tax revenue is recognized in the year for which the taxes are levied.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accidental 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.

The District is self-insured for a portion of its exposure to risk of loss from medical malpractice and employee health claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice and employee health claims and include an estimate of ultimate costs for both reported claims and claims incurred but not yet reported.

Patient Accounts Receivable

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

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

Notes to Financial Statements December 31, 2016 and 2015

Supplies

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

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 District:

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

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination rates in effect at the statement of net position date.

Deferred Inflows of Resources

The District reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position.

Net Position

Net position of the District 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 District, 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.

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

Notes to Financial Statements

December 31, 2016 and 2015

Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party 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.

Charity Care

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The District provided charity care, measured at charges foregone, of \$130,057 and \$61,720 during 2016 and 2015, respectively. The District also provides indigent care under the Medicaid program and Colorado Indigent Care Program.

Income Taxes

As an essential government function of the County, the District 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 District 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 District 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.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. The reclassifications had no effect on the changes in financial position.

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.

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

Notes to Financial Statements

December 31, 2016 and 2015

Note 2: Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare. The District is designated as a Critical Access Hospital, and is reimbursed on a cost basis. The District is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the District and audit thereof by the Medicare fiscal intermediary.

Medicaid. Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Most outpatient services are reimbursed under a cost-reimbursement methodology. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid.

Approximately 73% and 80% of net patient service revenue are from participation in the Medicare and Medicaid programs for the years ended December 31, 2016 and 2015, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB 1293), was passed during 2009 implementing a fee on hospitals to generate matching funds to the State of Colorado from federal sources. Implementation of this act occurred during April of 2010 and had the following effect on the District's financial statements:

	2016	2015
Supplemental payments received	\$ 2,357,332	\$ 3,226,399
Provider fee expense	(392,712)	(391,905)
Effect of HB 1293	\$ 1,964,620	\$ 2,834,494

The provider fee payments have been recorded as an operating expense and the supplemental payments received have been recorded as an adjustment to net patient service revenue in the accompanying financial statements.

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

Notes to Financial Statements December 31, 2016 and 2015

Note 3: Patients Accounts Receivable

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

	2016	2015
Medicare	\$ 3,233,060	\$ 1,525,597
Medicaid	1,823,569	998,145
Other third-party payers	2,438,672	2,062,687
Patients	498,284	881,961
	7,993,585	5,468,390
Less allowance for contractuels and uncollectible accounts	(5,310,726)	(2,468,876)
	\$ 2,682,859	\$ 2,999,514

Note 4: Deposits, Investments and Investment Income

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 District'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.

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

Notes to Financial Statements December 31, 2016 and 2015

At December 31, 2016 and 2015, \$2,272,339 and \$3,092,825, respectively, of the District's bank balances of \$3,101,354 and \$4,412,613, respectively, were exposed to custodial credit risk as follows:

	2016	2015
Insured (FDIC) or collateralized with securities held by the District	\$ 829,015	\$ 1,319,788
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the District's name	2,272,339	3,092,825
	\$ 3,101,354	\$ 4,412,613

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. Money market accounts are valued based on quoted prices in active markets, certificates of deposit are valued at cost, which approximates fair value, and U.S. Treasury notes are priced by the asset custodian based on quoted prices for identical or similar assets in inactive markets.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy is limited to purchasing securities that mature within one year from the date of purchase for operating funds and five years or less from the date of purchase for capital reserves. The U.S. Treasury note was acquired to use as collateral on note payable to a bank and has a maturity date of August 31, 2019.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2016, the District's only investments consist of money market accounts, certificates of deposit, and the U.S. Treasury note discussed above.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities pledged as collateral for the District's repurchase agreements at December 31, 2016 and 2015 are held by outside third parties. The District's investment policy states that the underlying assets related to the repurchase agreements held are to be invested in federal agency securities.

Concentration of Credit Risk – The District will not have any single investment exceed one-third of the total portfolio, except for U.S. Treasury securities and federal agencies.

Foreign Currency Risk – This risk is related to adverse effects on the fair value of an investment from changes in exchange rates. The District's investment policy does not permit foreign currency holdings at December 31, 2016.

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

Notes to Financial Statements December 31, 2016 and 2015

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the statements of net position as follows:

	2016	2015
Carrying value		
Bank deposits	\$ 2,037,330	\$ 3,364,394
U.S. Treasury note	1,500,000	1,500,000
Certificates of Deposit	790,000	790,000
On deposit with State Treasurer	257,350	257,350
Cash on hand	3,396	4,400
	\$ 4,588,076	\$ 5,916,144
Included in the following statement of net position captions		
Cash and cash equivalents	\$ 97,925	\$ 833,036
Restricted cash	83,139	84,417
Noncurrent cash and investments:		
Internally designated	2,611,263	3,190,773
Investments held as collateral on long-term debt	1,500,000	1,500,000
Held by Colorado State Treasurer	257,350	257,350
Cash restricted by donors	38,399	50,568
	\$ 4,588,076	\$ 5,916,144

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

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:

	2016				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 17,633	\$ -	\$ -	\$ -	\$ 17,633
Buildings and leasehold improvements	21,837,525	95,155	-	-	21,932,680
Equipment	8,468,725	1,856,443	(299,515)	112,292	10,137,945
Construction in progress	135,157	-	-	(112,292)	22,865
	<u>30,459,040</u>	<u>1,951,598</u>	<u>(299,515)</u>	<u>-</u>	<u>32,111,123</u>
Less accumulated depreciation					
Buildings and leasehold improvements	12,652,932	587,880	-	-	13,240,812
Equipment	7,368,259	639,148	(299,515)	-	7,707,892
	<u>20,021,191</u>	<u>1,227,028</u>	<u>(299,515)</u>	<u>-</u>	<u>20,948,704</u>
Capital assets, net	<u>\$ 10,437,849</u>	<u>\$ 724,570</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,162,419</u>
	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 17,633	\$ -	\$ -	\$ -	\$ 17,633
Buildings and leasehold improvements	21,731,829	105,696	-	-	21,837,525
Equipment	8,355,825	65,155	-	47,745	8,468,725
Construction in progress	45,575	137,327	-	(47,745)	135,157
	<u>30,150,862</u>	<u>308,178</u>	<u>-</u>	<u>-</u>	<u>30,459,040</u>
Less accumulated depreciation					
Buildings and leasehold improvements	12,069,887	583,045	-	-	12,652,932
Equipment	6,730,031	638,228	-	-	7,368,259
	<u>18,799,918</u>	<u>1,221,273</u>	<u>-</u>	<u>-</u>	<u>20,021,191</u>
Capital assets, net	<u>\$ 11,350,944</u>	<u>\$ (913,095)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,437,849</u>

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

Notes to Financial Statements December 31, 2016 and 2015

Note 6: Lines of Credit

The District has a line of credit agreement that provides for borrowings of up to \$1,000,000 through the maturity date of November 1, 2017. At December 31, 2016 and 2015, there was \$500,000 and \$0, respectively, borrowed against this line. Interest on the line of credit borrowings is payable monthly at the prime rate less 1.35% with a floor of 3.5%. The line is collateralized by the District's accounts receivable.

The District has a line of credit agreement that provides for borrowings to implement and operate software through the maturity date of August 28, 2019. At December 31, 2016 and 2015, there was \$1,801,611 and \$0, respectively, borrowed against this line. Interest on the line of credit borrowings is payable monthly at a rate of 4.25%. The line is collateralized by the District's assets. The District has paid interest only, and \$10,000 principal through December 31, 2016. The agreement will result in a balloon payment due August 28, 2019. The covenants related to this line of credit have been waived by the medical center as of December 31, 2016. The line of credit has been refinanced during fiscal year 2017 to include a revised term and payment schedule.

The following is a summary of line of credit transactions for the District for the years ended December 31:

2016				
	Beginning Balance	Additions	Reductions	Ending Balance
Line of credit				
Line of credit with financial institution	\$ -	\$ 900,000	\$ (400,000)	\$ 500,000
Line of credit with medical center	-	1,811,611	(10,000)	1,801,611
Total line of credit	\$ -	\$ 2,711,611	\$ (410,000)	\$ 2,301,611
2015				
	Beginning Balance	Additions	Reductions	Ending Balance
Line of credit				
Line of credit with financial institution	\$ 750,000	\$ 250,000	\$ (1,000,000)	\$ -

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

Notes to Financial Statements December 31, 2016 and 2015

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the District for the years ended December 31:

		2016			Amounts Within One Year	
		Beginning Balance	Additions	Reductions	Ending Balance	
Long-term debt						
	Notes payable to banks	\$ 2,404,659	\$ -	\$ (145,393)	\$ 2,259,266	\$ 308,491
	Capital lease obligations	790,030	-	(168,522)	621,508	147,924
	Total long-term debt	\$ 3,194,689	\$ -	\$ (313,915)	\$ 2,880,774	\$ 456,415
		2015				
		Beginning Balance	Additions	Reductions	Ending Balance	Amounts Within One Year
Long-term debt						
	Notes payable to banks	\$ 2,546,679	\$ -	\$ (142,020)	\$ 2,404,659	\$ 313,415
	Capital lease obligations	953,536	-	(163,506)	790,030	161,553
	Total long-term debt	\$ 3,500,215	\$ -	\$ (305,526)	\$ 3,194,689	\$ 474,968

Notes Payable to Bank

The District has a note payable to bank with an outstanding balance of \$166,723 and \$178,714 as of December 31, 2016 and 2015, respectively, that is due September 15, 2017. Principal is payable annually and interest is payable monthly at 4.6%. The note is secured by real property.

During 2012, the District entered into a promissory note payable to a bank with maximum available borrowings for construction of \$2,500,000. As of December 31, 2016 and 2015, borrowings under the note totaled \$2,092,543 and \$2,225,945, respectively. Interest only payments at 4% were due until November 2013, when principal and interest payments became due monthly. The note matures in October 2027 and is secured by a U.S. Treasury note with a balance of \$1,500,000 as of December 31, 2016. The loan agreement requires the maintenance of certain financial covenants. These financial covenants were not met as of December 31, 2016.

Due to operating losses incurred during the current year, management has been working to reduce excess cost, enhance the revenue cycle and improve operating performance, while focusing on the continuum of care. An electronic medical record (EMR) system conversion took place at the end of 2016 that impacted operations, staffing resources, billing and collecting, but will improve the revenue cycle going forward. Management was able to restructure debt which had a balloon payment, was refinanced to establish monthly payments. Other debt that covenants were not met could be repaid with existing assets. Additionally, management is in the process of extending payment terms on the debt that is currently in default.

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

Notes to Financial Statements December 31, 2016 and 2015

The debt service requirements as of December 31, 2016 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2017	\$ 390,651	\$ 308,491	\$ 82,160
2018	222,654	147,544	75,110
2019	222,694	153,595	69,099
2020	222,893	160,056	62,837
2021	222,893	166,577	56,316
2022-2026	1,114,466	940,388	174,078
2027	392,552	382,615	9,937
	<u>\$ 2,788,803</u>	<u>\$ 2,259,266</u>	<u>\$ 529,537</u>

Capital Lease Obligations

The District is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2016 and 2015, totaled \$1,758,539, net of accumulated depreciation of \$873,011 and \$755,471, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.5% to 2.8% together with the present value of the future minimum lease payments as of December 31, 2016:

Year Ending December 31,	
2017	\$ 173,563
2018	106,742
2019	106,742
2020	106,742
2021	106,742
2022-2023	<u>105,373</u>
Total minimum lease payments	705,904
Less amount representing interest	<u>84,396</u>
Present value of future minimum lease payments	<u>\$ 621,508</u>

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

Notes to Financial Statements December 31, 2016 and 2015

Note 8: Restricted Net Position

At December 31, 2016 and 2015, restricted expendable net position were available for the following purposes:

	2016	2015
Investments held as collateral on long-term debt	\$ 1,500,000	\$ 1,500,000
Nursing Home expense reserve held by Colorado State Treasurer	257,350	257,350
Resident needs, including capital acquisitions	38,399	50,568
Total restricted expendable net assets	\$ 1,795,749	\$ 1,807,918

At December 31, 2016 and 2015, \$2,611,263 and \$3,190,773, respectively, of cash and investments have been designated for future use by the District's Board of Directors. Designated balances remain under the control of the Board of Directors and may be used at their discretion.

Note 9: Operating Leases

Noncancelable operating leases for medical and office equipment expire in various years through 2021.

Future minimum lease payments at December 31, 2016, were:

2017	\$ 268,884
2018	208,920
2019	61,325
2020	32,626
2021	26,760
Future minimum lease payments	\$ 598,515

Lease expense for all operating leases for the years ended December 31, 2016 and 2015 totaled \$244,437 and \$275,160, respectively.

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

Notes to Financial Statements

December 31, 2016 and 2015

Note 10: 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 5-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.

Note 11: Nursing Home Expense Reserve Account

Under the terms of the operating contract with the State of Colorado (the State), 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 (see Note 4). 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.

Note 12: 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 other operating revenue in the accompanying financial statements.

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

Notes to Financial Statements December 31, 2016 and 2015

Note 13: Contingencies

In the normal course of business, the District 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 District's commercial insurance. The District 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.

Note 14: Tax, Spending and Debt Limitations

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments.

The District's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth.

The amendment excludes enterprises from its provisions. Enterprises are defined as government-owned businesses authorized to issue revenue bonds and who receive less than 10% of their annual revenue in grants from all state and local governments combined. The District is of the opinion that its operations qualify for this exclusion.

Supplementary Information

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center**
Combining Statement of Net Position
December 31, 2016

Assets

	District	Hospital	Nursing Home	Eliminations	Totals
Current Assets					
Cash and cash equivalents	\$ 1,492	\$ 17,763	\$ 78,670	\$ -	\$ 97,925
Cash held for residents	-	-	83,139	-	83,139
Patient accounts receivable, net of allowance of \$446,998	-	2,183,720	499,139	-	2,682,859
Property taxes receivable	436,869	-	-	-	436,869
Electronic health records incentives receivable	-	46,664	-	-	46,664
Due from affiliates	2,766,784	-	-	(2,766,784)	-
Supplies	-	436,764	-	-	436,764
Other current assets	-	747,381	165,689	-	913,070
Total current assets	<u>3,205,145</u>	<u>3,432,292</u>	<u>826,637</u>	<u>(2,766,784)</u>	<u>4,697,290</u>
Noncurrent Cash and Investments					
Internally designated	2,611,263	-	-	-	2,611,263
Assets whose use is limited					
Investments held as collateral on long-term debt	1,500,000	-	-	-	1,500,000
Held by Colorado State Treasurer	257,350	-	-	-	257,350
Cash restricted by donors	-	-	38,399	-	38,399
Total noncurrent cash and investments	<u>4,368,613</u>	<u>-</u>	<u>38,399</u>	<u>-</u>	<u>4,407,012</u>
Capital Assets, Net	<u>-</u>	<u>7,267,603</u>	<u>3,894,816</u>	<u>-</u>	<u>11,162,419</u>
Total assets	<u>\$ 7,573,758</u>	<u>\$ 10,699,895</u>	<u>\$ 4,759,852</u>	<u>\$ (2,766,784)</u>	<u>\$ 20,266,721</u>

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Combining Statement of Net Position (continued)
December 31, 2016**

**Liabilities, Deferred Inflows of
Resources and Net Position**

	District	Hospital	Nursing Home	Eliminations	Totals
Current Liabilities					
Accounts payable	\$ 53,607	\$ 747,234	\$ 44,159	\$ -	\$ 845,000
Accrued expenses and other current liabilities	-	1,823,268	15,860	-	1,839,128
Current maturities of long-term debt	-	373,650	82,765	-	456,415
Line of credit, current	-	500,000	-	-	500,000
Estimated third-party payer settlements	-	417,166	-	-	417,166
Provider fees payable	-	50,000	-	-	50,000
Due to affiliates	-	2,766,784	-	(2,766,784)	-
Deposits from residents	-	-	83,139	-	83,139
Total current liabilities	53,607	6,678,102	225,923	(2,766,784)	4,190,848
Line of Credit, Long-term	-	1,801,611	-	-	1,801,611
Long-term Debt	-	1,950,774	473,585	-	2,424,359
Total liabilities	53,607	10,430,487	699,508	(2,766,784)	8,416,818
Deferred Inflows of Resources					
Deferred property tax revenues	436,869	-	-	-	436,869
Total liabilities and deferred inflows of resources	490,476	10,430,487	699,508	(2,766,784)	8,853,687
Net Position					
Net investment in capital assets	-	3,141,568	3,338,466	-	6,480,034
Restricted	1,757,350	-	38,399	-	1,795,749
Unrestricted	5,325,932	(2,872,160)	683,479	-	3,137,251
Total net position	7,083,282	269,408	4,060,344	-	11,413,034
Total liabilities, deferred inflows of resources and net position	<u>\$ 7,573,758</u>	<u>\$ 10,699,895</u>	<u>\$ 4,759,852</u>	<u>\$ (2,766,784)</u>	<u>\$ 20,266,721</u>

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

Combining Statement of Net Position December 31, 2015

Assets

	District	Hospital	Nursing Home	Eliminations	Totals
Current Assets					
Cash and cash equivalents	\$ 1,491	\$ 547,505	\$ 284,040	\$ -	\$ 833,036
Cash held for residents	-	-	84,417	-	84,417
Patient accounts receivable, net of allowance of \$664,499	-	2,268,117	731,397	-	2,999,514
Property taxes receivable	443,634	-	-	-	443,634
Electronic health records incentives receivable	-	101,570	-	-	101,570
Due from affiliates	1,716,784	-	-	(1,716,784)	-
Supplies	-	453,251	-	-	453,251
Other current assets	-	741,053	339,633	-	1,080,686
Total current assets	<u>2,161,909</u>	<u>4,111,496</u>	<u>1,439,487</u>	<u>(1,716,784)</u>	<u>5,996,108</u>
Noncurrent Cash and Investments					
Internally designated	3,190,773	-	-	-	3,190,773
Assets whose use is limited					
Investments held as collateral on long-term debt	1,500,000	-	-	-	1,500,000
Held by Colorado State Treasurer	257,350	-	-	-	257,350
Cash restricted by donors	-	-	50,568	-	50,568
Total noncurrent cash and investments	<u>4,948,123</u>	<u>-</u>	<u>50,568</u>	<u>-</u>	<u>4,998,691</u>
Capital Assets, Net	<u>-</u>	<u>6,196,646</u>	<u>4,241,203</u>	<u>-</u>	<u>10,437,849</u>
Total assets	<u>\$ 7,110,032</u>	<u>\$ 10,308,142</u>	<u>\$ 5,731,258</u>	<u>\$ (1,716,784)</u>	<u>\$ 21,432,648</u>

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Combining Statement of Net Position (continued)
December 31, 2015**

**Liabilities, Deferred Inflows of
Resources and Net Position**

	District	Hospital	Nursing Home	Eliminations	Totals
Current Liabilities					
Accounts payable	\$ 13,888	\$ 1,069,968	\$ -	\$ -	\$ 1,083,856
Accrued expenses and other current liabilities	-	1,465,708	29,530	-	1,495,238
Current maturities of long-term debt	-	391,154	83,814	-	474,968
Estimated third-party payer settlements	-	68,863	-	-	68,863
Provider fees payable	-	176,767	-	-	176,767
Due to affiliates	-	1,716,784	-	(1,716,784)	-
Deposits from residents	-	-	84,417	-	84,417
Total current liabilities	13,888	4,889,244	197,761	(1,716,784)	3,384,109
Long-term Debt	-	2,156,669	563,052	-	2,719,721
Total liabilities	13,888	7,045,913	760,813	(1,716,784)	6,103,830
Deferred Inflows of Resources					
Deferred property tax revenues	443,634	-	-	-	443,634
Total liabilities and deferred inflows of resources	457,522	7,045,913	760,813	(1,716,784)	6,547,464
Net Position					
Net investment in capital assets	-	3,648,823	3,594,337	-	7,243,160
Restricted	1,757,350	-	50,568	-	1,807,918
Unrestricted	4,895,160	(386,594)	1,325,540	-	5,834,106
Total net position	6,652,510	3,262,229	4,970,445	-	14,885,184
Total liabilities, deferred inflows of resources and net position	\$ 7,110,032	\$ 10,308,142	\$ 5,731,258	\$ (1,716,784)	\$ 21,432,648

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

Combining Statement of Revenues, Expenses and Changes in Net Position Year Ended December 31, 2016

	District	Hospital	Nursing Home	Eliminations	Totals
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts of \$680,904	\$ -	\$ 12,313,971	\$ 8,842,296	\$ -	\$ 21,156,267
Other operating revenue	-	341,519	1,911,707	-	2,253,226
Total operating revenues	-	12,655,490	10,754,003	-	23,409,493
Operating Expenses					
Salaries, wages and employee benefits	-	11,387,056	7,002,727	-	18,389,783
Purchased services and professional fees	-	1,829,450	595,970	-	2,425,420
Supplies and other	39,718	2,716,640	2,845,515	-	5,601,873
Depreciation and amortization	-	847,485	379,543	-	1,227,028
Total operating expenses	39,718	16,780,631	10,823,755	-	27,644,104
Operating Loss	(39,718)	(4,125,141)	(69,752)	-	(4,234,611)
Nonoperating Revenues (Expenses)					
Property taxes	461,983	-	-	-	461,983
Investment income	8,507	-	-	-	8,507
Interest expense	-	(168,808)	(16,580)	-	(185,388)
Noncapital grants and gifts	-	461,777	15,567	-	477,344
Other	-	-	15	-	15
Total nonoperating revenues (expenses)	470,490	292,969	(998)	-	762,461
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts, Grants and Transfers	430,772	(3,832,172)	(70,750)	-	(3,472,150)
Capital Gifts and Grants	-	-	-	-	-
Transfers	-	839,351	(839,351)	-	-
Increase (Decrease) in Net Position	430,772	(2,992,821)	(910,101)	-	(3,472,150)
Net Position, Beginning of Year	6,652,510	3,262,229	4,970,445	-	14,885,184
Net Position, End of Year	\$ 7,083,282	\$ 269,408	\$ 4,060,344	\$ -	\$ 11,413,034

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center**
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2015

	District	Hospital	Nursing Home	Eliminations	Totals
Operating Revenues					
Net patient service revenue, net of provision for uncollectible accounts of \$1,147,081	\$ -	\$ 13,350,564	\$ 9,304,272	\$ (62,114)	\$ 22,592,722
Other operating revenue	-	324,701	2,260,248	(24,996)	2,559,953
Total operating revenues	-	13,675,265	11,564,520	(87,110)	25,152,675
Operating Expenses					
Salaries, wages and employee benefits	-	10,651,456	7,214,351	-	17,865,807
Purchased services and professional fees	-	1,651,243	479,790	(95,510)	2,035,523
Supplies and other	24,000	2,842,461	2,623,743	-	5,490,204
Depreciation and amortization	-	852,267	369,006	-	1,221,273
Total operating expenses	24,000	15,997,427	10,686,890	(95,510)	26,612,807
Operating Income (Loss)	(24,000)	(2,322,162)	877,630	8,400	(1,460,132)
Nonoperating Revenues (Expenses)					
Property taxes	454,646	-	-	-	454,646
Investment income	8,633	-	-	-	8,633
Interest expense	-	(129,807)	(17,363)	-	(147,170)
Noncapital grants and gifts	-	433,447	19,576	-	453,023
Other	3,634	-	114,820	(8,400)	110,054
Total nonoperating revenues (expenses)	466,913	303,640	117,033	(8,400)	879,186
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts, Grants and Transfers	442,913	(2,018,522)	994,663	-	(580,946)
Capital Gifts and Grants	-	36,223	-	-	36,223
Transfers	-	1,805,916	(1,805,916)	-	-
Increase (Decrease) in Net Position	442,913	(176,383)	(811,253)	-	(544,723)
Net Position, Beginning of Year	6,209,597	3,438,612	5,781,698	-	15,429,907
Net Position, End of Year	\$ 6,652,510	\$ 3,262,229	\$ 4,970,445	\$ -	\$ 14,885,184

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

Budget and Actual Revenues and Expenses Year Ended December 31, 2016

	Actual	Budget	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 21,156,267	\$ 24,105,357	\$ (2,949,090)
Other operating revenue	2,253,226	3,261,124	(1,007,898)
	23,409,493	27,366,481	(3,956,988)
Operating Expenses			
Salaries, wages and employee benefits	18,389,783	18,516,616	126,833
Other operating expenses	9,254,321	9,076,375	(177,946)
	27,644,104	27,592,991	(51,113)
Operating Loss	(4,234,611)	(226,510)	(4,008,101)
Nonoperating Revenue (Expenses), Net	762,461	447,342	315,119
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts	\$ (3,472,150)	\$ 220,832	\$ (3,692,982)

Notes to Schedule

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.

Appropriations are adopted by resolution in total. There were no supplemental budgets adopted during 2016.

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>Department of Veterans Affairs</u>			
Passed through from the Colorado Department of Human Services			
Veterans State Nursing Home Care	64.015	None provided	\$ 1,911,707
Total Department of Veterans Affairs			<u>1,911,707</u>
<u>Department of Health and Human Services</u>			
Passed through from the Colorado Department of Public Health and Environment			
Family Planning Services	93.217	None provided	27,288
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	None provided	<u>26,012</u>
Total Department of Health and Human Services			<u>53,300</u>
Total Federal Awards			<u><u>\$ 1,965,007</u></u>

The accompanying notes are an integral part of this schedule.

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center**
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center under programs of the federal government for the year ended December 31, 2016. The accompanying notes are an integral part of this Schedule. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB or the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
3. There were no federal awards provided to subrecipients.

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

Board of Directors
Huerfano County Hospital District
d/b/a Spanish Peaks Regional Health Center
Walsenburg, 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 Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the 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, and have issued our report thereon dated September 26, 2017.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the District's 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002 and 2016-003 to be material weaknesses.

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

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 consider the deficiencies described in the accompanying schedule of findings and responses (schedule of findings and questioned costs) as items 2016-004 and 2016-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its 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*.

Purpose of this Report

The purpose of this communication is 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 entity's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Colorado Springs, Colorado
September 26, 2017

Independent Auditor's Report on Compliance with Requirements for Each Major Federal Program and Report on Internal Control Over Compliance

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the District) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the District's compliance with those requirements.

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

Opinion on Each Major Federal Program

In our opinion, Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

The management of Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Colorado Springs, Colorado
September 26, 2017

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016**

7. Identification of major programs:

Cluster/Program	CFDA Number
Veterans State Nursing Home Care	64.015

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. Auditee qualified as low-risk auditee?

Yes No

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016**

Section II – Financial Statement Findings

Reference Number	Finding
2016-001	<p>Finding: Reconciliations and Review of General Ledger Accounts</p> <p>Criteria or Specific Requirement: An effective financial reporting system is an important component of an internal control system that helps ensure transactions are recorded accurately and timely, thereby providing accurate financial data. The District is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Condition:</p> <p>(A) BKD proposed and the District recorded several journal entries to correct general ledger balances. These</p> <ul style="list-style-type: none"> • Accounts payable decreased by approximately \$306,000 • Accrued liabilities decreased by approximately \$128,000 • Prepaid insurance increased by approximately \$46,000 • Deferred revenue increased by approximately \$40,000 • Interest expense increased by approximately \$253,000 • Miscellaneous accounts receivable decreased by approximately \$200,000 • Unapplied cash increased by approximately \$193,000 • Patient accounts receivable decreased by approximately \$337,000 • Prepaid audit fees decreased by approximately \$56,000 <p>These entries were material to the over financial statements when considered in aggregate.</p> <p>(B) In testing of several audit areas, BKD noted 'clean up' entries posted to contractual accounts to reconcile other statement of net position accounts.</p> <p>(C) Journal entries are not being formally reviewed.</p> <p>(D) The District has a material amount of credit balances, including amounts owed back to third parties and insurance paid contractals.</p> <p>(E) An interim bank reconciliation selected for testing had material unreconciled differences, and also showed delays in preparation and in review processes.</p> <p>Effect: Multiple entries were proposed and recorded to reconcile and correct general ledger account balances.</p> <p>Cause: The District converted general ledger systems in November 2016, causing significant delays in reconciliations of accounts. Additionally, the District experienced significant staff turnover during 2016, and there was no managerial oversight to ensure reconciliations were completed properly and reviewed during this time.</p> <p>Identification as a repeat finding: N/A</p> <p>Recommendation: We recommend the District take immediate steps to strengthen internal controls over the reconciliation and review of general ledger accounts to ensure proper financial reporting.</p> <p>Views of Responsible Officials and Planned Corrective Actions: Agree - see separate report for planned corrective action.</p>

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016**

Reference Number	Finding
2016-002	<p>Finding: Internal Controls Over Cash Inflows</p> <p>Criteria or Specific Requirement: Segregation of accounting duties is an essential element of an internal control system, involving the separation of custody of assets from the related recording and monitoring of the transactions. This separation helps ensure transactions are recorded accurately and timely, reducing possibilities of errors or fraud being undetected in the normal course of business, thereby providing accurate financial data. Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Condition: During testing of accounts receivable, we noted the following:</p> <ul style="list-style-type: none"> (A) Charge master is not being reviewed annually for updates. (B) Midnight census is not being consistently taken and therefore a reconciliation is also not occurring. (C) Due to general ledger system conversion, issues in coding caused a delay in billing. (D) Emergency Room billing has been outsourced to a third party; however, if these coders are unsure how to code, this is pushed back to the District. Due to understaffing, a majority of these bills have not been investigated. (E) The District does not have a contracts management system to verify all insurance companies have paid the District correctly. (F) Lag in matching Medicaid & Medicare payments to patient accounts. (G) Lack of segregation of duties due to understaffing. <p>Effect: We were unable to effectively test the internal controls of cash inflows.</p> <p>Cause: The District converted general ledger systems in November 2016, causing significant delays in coding and billing. The Patient Financial Services department has experienced staff turnover which has also increased these delays and has resulted in lack of segregation of duties.</p> <p>Identification as a repeat finding: N/A</p> <p>Recommendation: We recommend the District take immediate steps to strengthen internal controls over cash inflows to ensure proper financial reporting.</p> <p>Views of Responsible Officials and Planned Corrective Actions: Agree - see separate report for planned corrective action.</p>

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016**

Reference Number	Finding
2016-003	<p>Finding: Adjustment to Allowance for Doubtful Accounts</p> <p>Criteria or Specific Requirement: Management is required to estimate allowance for doubtful accounts to ensure proper reporting of accounts receivable. Management is responsible for this estimate.</p> <p>Condition: The estimate for allowance for doubtful accounts was materially understated by management.</p> <p>Effect: A material entry was proposed and recorded by management to properly estimate allowance for doubtful accounts and increased the allowance by \$1,500,000.</p> <p>Cause: The District converted general ledger systems in November 2016, causing significant delays in coding and billing. This had a direct impact on the calculation of allowance for doubtful accounts. Additionally, client's estimate included errors which also had a significant impact on the calculation.</p> <p>Identification as a repeat finding: N/A</p> <p>Recommendation: We recommend the District improve the calculation for the estimate of allowance for doubtful accounts to ensure proper financial reporting.</p> <p>Views of Responsible Officials and Planned Corrective Actions: Agree - see separate report for planned corrective action.</p>

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016**

Reference Number	Finding
2016-004	<p>Finding: Internal Controls Over Cash Outflows and Payroll</p> <p>Criteria or Specific Requirement: Segregation of accounting duties is an essential element of an internal control system, involving the separation of custody of assets from the related recording and monitoring of the transactions. This separation helps ensure transactions are recorded accurately and timely, reducing possibilities of errors or fraud being undetected in the normal course of business, thereby providing accurate financial data. Management is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Condition:</p> <p>(A) The District has limited controls surrounding the addition of new vendors.</p> <p>(B) The Finance Director has access to blank checks, makes entries to the general ledger, has the ability to add or modify vendors, has access to approved checks and prepares the bank reconciliation. This person could create a false vendor or modify an existing vendor, process a fraudulent payment, and post an entry in the general ledger to cover this up.</p> <p>(C) The Accounts Payable Clerk has the ability to modify employee information in the payroll system, record checks and direct deposit in the system, and issue payroll checks. These duties are conflicting as changes to</p> <p>Effect: The effect of the lack of segregation of duties, noted above, could result in the processing of unapproved or improper check requests or payment to unapproved or illegitimate vendors. Additionally, the lack of segregation of duties could result in improper payroll payments.</p> <p>Cause: The District has limited staffing resources due to size.</p> <p>Identification as a repeat finding: N/A</p> <p>Recommendation: We recommend the review of a vendor and pay rate change report each month to ensure that all vendor and pay rate changes are properly approved. We recommend the District take immediate steps to strengthen internal controls over cash outflows and payroll to ensure proper financial reporting.</p> <p>Views of Responsible Officials and Planned Corrective Actions: Agree - see separate report for planned corrective action.</p>

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016**

Reference Number	Finding
2016-005	<p>Finding: Internal Controls Over Capital Assets</p> <p>Criteria or Specific Requirement: An effective financial reporting system is an important component of an internal control system that helps ensure transactions are recorded accurately and timely, thereby providing accurate financial data. The District is responsible for establishing and maintaining effective internal controls over financial reporting.</p> <p>Condition: During the audit, it was discovered that there are no formal policies and procedures over the purchases or disposals of capital assets.</p> <p>Effect: The effect of the lack of controls, noted above, could result in improper financial reporting.</p> <p>Cause: The District does not have formal policies and procedures over these processes. In addition, there was also turnover in several accounting positions during the year. Without documented procedures, there was a lack of guidance for new accounting personnel.</p> <p>Identification as a repeat finding: N/A</p> <p>Recommendation: We recommend the District take immediate steps to strengthen internal controls over capital assets to ensure proper financial reporting.</p> <p>Views of Responsible Officials and Planned Corrective Actions: Agree - see separate report for planned corrective action.</p>

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center**
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2016

Section III – Federal Award Findings and Questioned Costs

**Reference
Number**

Finding

No matters are reportable.

**Huerfano County Hospital District d/b/a
Spanish Peaks Regional Health Center**
Schedule of Prior Audit Findings
Year Ended December 31, 2016

Reference Number	Summary of Finding	Status
2015-001	Financial Statement Finding Recommendation that the District continue to invest in the necessary resources to allow for the reporting of accurate financial information.	Not Implemented - see 2016-001