

cPa DIXON, WALLER & CO., INC.

SOUTHEAST COLORADO  
HOSPITAL DISTRICT

SPRINGFIELD, COLORADO

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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*By the Office of the State Auditor at 3:16 pm, Jul 21, 2017*

**DIXON, WALLER & CO., INC.**

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SOUTHEAST COLORADO

HOSPITAL DISTRICT

DECEMBER 31, 2016

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FINANCIAL SECTION

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Independent Auditor's Report

Board of Directors  
Southeast Colorado Hospital District  
Springfield, CO 81073

We have audited the accompanying financial statements of the business-type activities of Southeast Colorado Hospital District as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Southeast Colorado Hospital District as of December 31, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

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

*Sigson, Waller & Co., Inc.*

June 10, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SOUTHEAST COLORADO HOSPITAL  
AND LONG TERM CARE CENTER**

373 East Tenth Avenue  
SPRINGFIELD, COLORADO 81073  
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**SOUTHEAST COLORADO HOSPITAL DISTRICT  
Management's Discussion and Analysis and Financial Statements  
FY 2016**

The three purposes of this discussion of Southeast Colorado Hospital District's financial performance are:

- To provide a narrative explanation of financial statements allowing the community and all stakeholders to see the District through the eyes of management.
- To improve overall financial disclosure and provide the context within which financial statements should be analyzed.
- To provide information about the status, and potential variability, of the District's earnings and cash flow, so one can ascertain the likelihood past performance is indicative of future performance.

**SUMMARY**

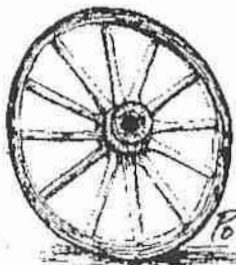
The District's Total Current Assets increased by \$157,469, or 2.5%. The increase was driven by a \$739,337 increase in net accounts receivable, an increase in estimated third party settlements, an increase in capital acquisitions by \$ 1,551,521 and offset by a \$ 579K decrease in cash and cash equivalents. The District has made progress with implementation of an accurate and timely accounts receivable monitoring procedure and providing direction to billing and collections personnel for bill submission and tracking. Recent changes in financial management practices resulted in effective billing and collections for 2016. Total assets increased 26.4%

The Districts Total Liabilities increased by \$2,451,353, or 163%, driven by an increase in current long term debt, and long term debt. The result in Net Position was an increase of \$ 551,469.

Please see Table 1 for further details on the Statement of Net Position.

The District's total Operating Revenue had a total increase of 1.2%. It is important to note there was a \$468552, or 6.9% increase in Hospital-based Net Patient Service Revenue, a \$87K, or 7.7% increase in Clinic Revenue, a \$88 K, or 20% increase in Home Health and Hospice Revenue and a \$ 1477, or 1 % increase in other operating revenue. The increase in revenue all district areas is due, in large part, to a change in assignment of Professional Services Revenues for physician services provided in the Emergency Department. This change of assignment of

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*Bob Ballantyne*

*The hub of quality care in Southeast Colorado*

revenues is an integral part of the new IT system and related financial applications that were implemented in FY 2012. The overall increase in these revenues is due to a higher level of physician activity due to the placement of permanent, full-time physicians. The District has recruited and has on staff now 3 physician providers and 2 mid-level providers.

Total Operating Expenses increase for the year by \$856,877 or 6.2%. There was \$825K or 8% increase in salaries and benefits, primarily due to increase in self-funded health insurance benefits and a pal time is paid out at the current rate of pay instead of at the accrued rate of pay. There is a \$30K or 1.8% increase in contract services.

With contributions, tax revenue, and meaningful use incentive payments, a total of 592K was added to revenue resulting in an increase in net position (net gain) of \$ 551K.

Please see Table 2 for further details on the Statement of Revenues, Expenses and Changes in Net Position.

**TABLE 1 - STATEMENT OF NET POSITION**

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Total Current Assets	\$ 6,538,013	\$ 6,380,544
Total Noncurrent Cash and Investments	2,608,470	1,057,989
Total Capital Assets, Net	5,214,447	3,924,753
<b>Total Assets</b>	<b>14,360,930</b>	<b>11,363,286</b>
<b>Liabilities and Net Position</b>		
Total Current Liabilities	1,475,586	1,367,138
Long-Term Debt, Net of Current Maturities	2,478,915	136,010
<b>Total Liabilities</b>	<b>3,954,501</b>	<b>1,503,148</b>
Deferred Property Taxes	349,516	354,694
<b>Net Position</b>		
<b>Total Net Position</b>	<b>10,056,913</b>	<b>9,505,444</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 14,360,930</b>	<b>\$ 11,363,286</b>

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 are one indicator of whether financial health is improving or deteriorating.

**TABLE 2 - STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	<b>2016</b>	<b>2015</b>
<u>Operating Revenues</u>		
Net Patient Service Rev (Net of Contractual Adjust of \$ 7,303,259 in 2016 and \$ 6,834,707 in 2015)	12,206,015	12,220,449
Clinic Revenue	1,219,864	1,132,510
Home Health, Hospice & Therapy Revenue	520,879	432,572
Other	149,910	148,433
<b><u>Total Operating Revenue</u></b>	<b><u>13,933,964</u></b>	<b><u>13,933,964</u></b>

Operating Expenses

Salaries and Benefits	9,916,349	9,298,555
Medical and Other Supplies	1,192,031	984,759
Insurance	103,449	93,349
Contracted Services	1,752,240	1,721,318
Repairs and Maintenance	332,125	347,889
Utilities and Telephone	243,583	249,850
Depreciation and Amortization	741,115	684,905
Other Expenses	316,822	360,212
<b><u>Total Operating Expenses</u></b>	<b><u>14,597,714</u></b>	<b><u>13,740,837</u></b>

<b><u>Operating Income (Loss)</u></b>	<b><u>(501,046)</u></b>	<b><u>193,127</u></b>
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Nonoperating Revenues (Expenses)

Property Taxes	351,435	317,007
Specific Ownership Taxes	44,684	44,041
E.H.R Incentive Payments	52,745	10,536
Investment Income	9,725	10,662
Interest Expense	(24,189)	(9,697)
Noncapital Grants and Contributions	80,954	53,742
Other	76,654	37,091
<b><u>Total Nonoperating Revenues and Expenses</u></b>	<b><u>592,008</u></b>	<b><u>463,382</u></b>

Excess of Revenues Over (Under) Expenses Before  
Capital Grants and Contributions

90,962	656,509
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Capital Grants and Contributions

460,507	158,383
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**Increase (Decrease) in Net Position**

<b>551,469</b>	<b>814,892</b>
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Net Position, Beginning of Year

<u>9,505,444</u>	<u>8,690,552</u>
------------------	------------------

Net Position, End of Year

<u>10,056,913</u>	<u>9,505,444</u>
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**Changes in Net Position**

In the previous year, the Authority reported an increase in Net Position of \$814,892 compared to this year's increase in Net Position of \$ 551,469. District's hospital operations were begun in 1969 as a special district hospital, when it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the County's lower income residents.

**Non-operating Revenues and Expenses**

Non-operating revenues consist primarily of property taxes levied by the District and Grants. In 2002 the district was successful in raising their mill levy to 7 mills through a vote of the district voters.

## Grants, Contributions, Endowments, and Capital Reimbursement

The district receives both capital and operating grants from various federal, state and private institutions. The district received \$460,507 in Grants and Contributions in 2016. This is an increase of \$302,124 from 2015.

## The Districts Cash Flows

Changes in the Districts cash flows are consistent with changes in operating gains and non-operating revenues and expenses, discussed earlier, with a couple exceptions. Due to issues with the implementation and monitoring of accounts receivable, cash flow was higher than expected.

## Capital Asset and Debt Administration

Capital Asset purchased included additions of 2 New Ambulances \$ 168658; and \$ 68397; Ultrasound \$ 92793; Dental Suite \$ 70628.

## CAPITAL ASSETS

A schedule of changes in the District's capital assets for 2015 and 2014 follows:

	Balance Dec. 31, 2015	Additions	Retirements	Balance Dec. 31, 2016
Land	90,089	-	-	90,089
Land Improvements	109,480	33,212	-	142,692
Building & Improvements	6,021,100		-	6,021,100
Equipment	7,195,436	577,506		7,772,942
Construction in Progress	1,125	1,420,090	-	1,421,215
<u>Totals at Historical Cost</u>	<u>13,417,230</u>	<u>2,030,808</u>	<u>-</u>	<u>15,448,038</u>
Less Accumulated Depreciation for:				
Land Improvements	89,374	5,663		95,037
Building & Improvements	3,736,190	166,213		3,902,403
Equipment	5,666,913	569,238		6,236,151
<u>Total Accumulated Depreciation</u>	<u>9,492,477</u>	<u>741,114</u>	<u>-</u>	<u>10,233,591</u>
<u>Capital Assets, Net</u>	<u>3,924,753</u>	<u>1,289,694</u>	<u>-</u>	<u>5,214,447</u>

	Balance Dec 31, 2014	Additions	Retirements	Balance Dec 31, 2015
Land	90,089	-	-	90,089
Land Improvements	109,480	-	-	109,480
Building & Improvements	5,903,962	117,138	-	6,021,100
Equipment	6,911,303	285,258	-	7,196,561
<u>Totals at Historical Cost</u>	<u>13,014,834</u>	<u>402,396</u>	<u>-</u>	<u>13,417,230</u>
Less Accumulated Depreciation for:				
Land Improvements	86,478	2,896		89,374
Building & Improvements	3,577,029	159,161		3,736,190
Equipment	5,144,065	522,848		5,666,913
<u>Total Accumulated Depreciation</u>	<u>8,807,572</u>	<u>684,905</u>	<u>-</u>	<u>9,492,477</u>
<u>Capital Assets, Net</u>	<u>4,207,262</u>	<u>(282,509)</u>	<u>-</u>	<u>3,924,753</u>

## LONG-TERM DEBT

A schedule of changes in the District's long-term debt for 2013 and 2014 follows:

<u>Changes in Debt</u>	Balance			Balance 12/31/2016	Amounts Due Within One Year
	1/1/2016	Additions	Reductions		
Lease Purchase Agreements	197,387	2,782,374	191,815	2,787,946	309,031
Notes Payable	100,000		100,000		
<u>Total Long-Term Debt</u>	<u>297,387</u>	<u>2,782,374</u>	<u>291,815</u>	<u>2,787,946</u>	<u>309,031</u>

	Balance			Balance 12/31/2015	Amounts Due Within One Year
	1/1/2015	Additions	Reductions		
Lease Purchase Agreements	151,110	100,000	53,723	197,387	61,377
Notes Payable	100,000		-	100,000	100,000
<u>Total Long-Term Debt</u>	<u>251,110</u>	<u>100,000</u>	<u>53,723</u>	<u>297,387</u>	<u>161,377</u>

Lease Purchase Agreements

	<u>2015</u>	<u>2016</u>
1) A lease purchase agreement for the purchase of three copiers was executed September 25, 2012. The original amount was \$16,925 with interest at 8.78% for 5 years with payments of \$349.52 per month.	6,855	3,211
2) A lease agreement for the purchase of a Philips 16 slice CT was executed April 30, 2013. The original amount was \$ 165,308 with interest at 4.5% for 5 years with payments of \$ 3,081.64 per month	81,768	47,770
3) A lease purchase agreement for the purchase of printers was executed June 20, 2014. The original amount was \$ 29,790 with interest at 3.2 % for 5 years with payments of \$ 538 monthly.		
	<u>20,867</u>	<u>14,994</u>
4. A Lease purchase agreement for the purchase of a Dimension Exl200 Chemistry Integrated System was executed on May 21, 2015. The original amount was \$ 100,000 with interest at 3.183% for 5 years with payments of \$ 1805 monthly	<u>87,897</u>	<u>70,366</u>
5. A lease purchase agreement for the Lexmark copier was executed on April 20, 2016. The original amount was \$ 7177 with interest at 5.64% for 5 years with payments of \$ 138 monthly		<u>6,225</u>
6. A lease purchase agreement for the purchase of HVAC Equipment was executed October 15, 2016. The original amount was d\$ 2,775,301 with interest at 3.24% for 10 years with payments of \$ 27,110 per month. An additional principal payment of \$ 90645 was made on December 28, 2016		<u>2,645,380</u>
<u>Total Lease Purchase Payable</u>	<u>197,387</u>	<u>2,787,946</u>

The District has entered into lease agreements for the acquisition of equipment. These lease purchase agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at December 31, 2016 and 2015.

Year	2016			2015				
	Principal	Interest	Total	Principal	Interest	Total		
2016				61377	6392	67769		
2017	309031	86325	395356	64750	3837	68387		
2018	291388	76026	367414	38827	1616	40443		
2019	284588	66733	351321	23680	670	24350		
2020	278485	57512	335997	8953	71	9024		
2021	277176	48556	325732					
2022	285876	39444	325320					
2023	295283	30037	325320					
2024	304999	20321	325320					
2025	315036	10284	325320					
2026	146084	1277	147361					
Total Minimum Lease Payts			2787946	436515	3224461	197387	12586	209973
Less: Amount Representing interest					436515			12586
Present Value of Future Minimum Lease Pymts					<u>2787946</u>			<u>197387</u>

Notes Payable

2016

2015

A note payable in the form of a line of credit, was executed on July 10, 2015 with an available principal amount of \$ 500,000 with an interest of 2.6%, maturing July 10, 2016.

0.00

100,000

Total Notes Payable

0.00

100,000

**Other Economic Factors**

The Hospital District is located in a rural setting where a large portion of the local economy depends on Agriculture. The District is the largest employer in Baca County. Given the current economics of Agriculture, the District is susceptible to changes and fluctuations in agricultural production and its impact on the overall regional economy. The District's service area also manifests a predominantly elderly population. While this results in increasing demand for healthcare for the senior population, the long-term drawback is that there is no economic development creating local employment to retain younger people and families or attract others to the local area. The population trend indicates a continued decline over the next 5-10 years.

Another challenge to the Hospital District is the ongoing reduction in Medicare and Medicaid payments, which together make up 80%-85% of our business. Medicare is scheduled to reduce payments by 2% for 1 year beginning in January of 2013, and there are other reductions in Medicare and Medicaid payment to facilities and professional providers that may be implemented by federal or state government.

The complete impact of federal health care reform is not fully understood at this time. While some uninsured individuals and families may have better access to health care insurance, the reimbursement for such health insurance coverage may not meet the financial requirements of the Hospital District.

**Contacting the District's Financial Management**

If you have questions about this report or need additional financial information, contact the District's Chief Financial Officer at Southeast Colorado Hospital, 373 East 10<sup>th</sup>, and Springfield, Co. 81073.

BASIC FINANCIAL STATEMENTS

SOUTHEAST COLORADO HOSPITAL DISTRICT  
STATEMENT OF NET POSITION  
December 31, 2016 and 2015

	2016	2015
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	2,290,974	2,870,844
Investments	647,980	644,339
Property Tax Receivable	349,516	354,694
Patient Accounts Receivable, Net of Estimated Uncollectibles of \$2,629,255 in 2016 and \$2,764,751 in 2015	2,501,152	2,000,657
Estimated Third Party Payor Settlements	415,501	176,659
Other Accounts Receivable	9,876	3,917
Prepaid Expenses	62,348	97,102
Supplies, at Lower of Cost (First-In, First-Out) or Market	260,666	232,332
<u>Total Current Assets</u>	<u>6,538,013</u>	<u>6,380,544</u>
<u>Noncurrent Cash and Investments:</u>		
Internally Designated for Capital Acquisitions	2,510,099	958,578
Internally Designated for Scholarships:		
Cash	11,481	15,486
Investment	72,000	72,000
Internally Designated for Health Insurance	5,751	568
Held in Trust for Residents	9,139	11,357
<u>Total Noncurrent Cash and Investments</u>	<u>2,608,470</u>	<u>1,057,989</u>
<u>Capital Assets</u>		
Land	90,089	90,089
Depreciable Capital Assets, Net of Accumulated Depreciation	5,124,358	3,834,664
<u>Total Capital Assets, Net of Accumulated Depreciation</u>	<u>5,214,447</u>	<u>3,924,753</u>
<u>TOTAL ASSETS</u>	<u>14,360,930</u>	<u>11,363,286</u>
 <u>LIABILITIES</u>		
<u>Current Liabilities</u>		
Current Maturities of Long-Term Debt	309,031	161,377
Accounts Payable and Accrued Expenses	898,514	883,126
Estimated Third-Party Payor Settlements	259,250	311,626
Other Current Liabilities	8,791	11,009
<u>Total Current Liabilities</u>	<u>1,475,586</u>	<u>1,367,138</u>
Long-Term Debt, Net of Current Maturities	2,478,915	136,010
<u>TOTAL LIABILITIES</u>	<u>3,954,501</u>	<u>1,503,148</u>
 <u>DEFERRED INFLOW OF RESOURCES</u>		
Property Taxes	349,516	354,694
 <u>NET POSITION</u>		
Net Investment in Capital Assets	3,831,833	3,727,367
Unrestricted	6,225,080	5,778,077
<u>TOTAL NET POSITION</u>	<u>10,056,913</u>	<u>9,505,444</u>

The accompanying notes are an integral part of these financial statements.

SOUTHEAST COLORADO HOSPITAL DISTRICT  
STATEMENT OF REVENUE, EXPENSES AND  
CHANGES IN NET POSITION  
Years Ended December 31, 2016 and 2015

	2016	2015
<u>OPERATING REVENUES</u>		
Net Patient Service Revenue (Net of contractual adjustments of \$7,303,259 in 2016 and \$6,834,707 in 2015)	12,206,015	12,220,449
Clinic Revenue	1,219,864	1,132,510
Home Health Hospice Care & Therapy Revenue	520,879	432,572
Other	149,910	148,433
<u>Total Operating Revenue</u>	<u>14,096,668</u>	<u>13,933,964</u>
 <u>OPERATING EXPENSES</u>		
Salaries and Benefits	9,916,349	9,298,555
Medical and Other Supplies	1,192,031	984,759
Insurance	103,449	93,349
Contracted Services	1,752,240	1,721,318
Repairs and Maintenance	332,125	347,889
Utilities and Telephone	243,583	249,850
State Provider Tax	176,086	201,372
Depreciation and Amortization	741,115	684,905
Other Expenses	140,736	158,840
<u>Total Operating Expenses</u>	<u>14,597,714</u>	<u>13,740,837</u>
 Operating Income (Loss)	<u>(501,046)</u>	<u>193,127</u>
 <u>NONOPERATING REVENUES (EXPENSES)</u>		
Property Taxes	351,435	317,007
Specific Ownership Tax	44,684	44,041
E.H.R. Incentive Payments	52,745	10,536
Investment Income	9,725	10,662
Interest Expense	(24,189)	(9,697)
Noncapital Grants and Contributions	80,954	53,742
Other	76,654	37,091
<u>Total Nonoperating Revenues (Expenses)</u>	<u>592,008</u>	<u>463,382</u>
 <u>EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>90,962</u>	<u>656,509</u>
 <u>CAPITAL GRANTS, CONTRIBUTIONS AND REIMBURSEMENTS</u>	<u>460,507</u>	<u>158,383</u>
 <u>INCREASE IN NET POSITION</u>	<u>551,469</u>	<u>814,892</u>
 <u>NET POSITION, Beginning of Year</u>	<u>9,505,444</u>	<u>8,690,552</u>
 <u>NET POSITION, End of Year</u>	<u>10,056,913</u>	<u>9,505,444</u>

The accompanying notes are an integral part of these financials statements.

SOUTHEAST COLORADO HOSPITAL DISTRICT  
STATEMENT OF CASH FLOWS  
Years Ended December 31, 2016 and 2015

	2016	2015
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts From and On Behalf of Patients	13,304,954	14,025,055
Payments to Suppliers and Contractors	(4,063,758)	(3,710,783)
Payments to Employees Salaries & Benefits	(9,779,210)	(9,261,410)
<u>Net Cash Provided (Used) by Operating Activities</u>	(538,014)	1,052,862
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
Property Taxes	396,119	361,048
Noncapital Grants and Contributions	133,699	64,278
Other Non Operating Revenues	76,654	37,091
<u>Net Cash Provided (Used) by Non-Capital Financing Activities</u>	606,472	462,417
<u>CASH FLOWS FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</u>		
Capital Grants and Contributions	460,507	158,383
Debt Proceeds	1,405,332	-
Principal Paid on Long-Term Debt	(291,815)	(53,723)
Interest Paid on Long-Term Debt	(24,189)	(9,697)
Purchase of Capital Assets	(653,766)	(302,396)
<u>Net Cash Provided (Used) by Capital and Related Financing Activities</u>	896,069	(207,433)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest and Dividends on Investments	9,725	10,662
Purchases of Investments	(3,641)	(2,285)
<u>Net Cash Provided by Investing Activities</u>	6,084	8,377
<u>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</u>	970,611	1,316,223
<u>CASH AND CASH EQUIVALENTS, Beginning of Year</u>	3,856,833	2,540,610
<u>CASH AND CASH EQUIVALENTS, End of Year</u>	4,827,444	3,856,833
<u>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position:</u>		
Cash and Cash Equivalents in Current Assets	2,290,974	2,870,844
Restricted Cash and Cash Equivalents	2,536,470	985,989
<u>Total Cash and Cash Equivalents</u>	4,827,444	3,856,833
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)</u>		
<u>By Operating Activities</u>		
Operating Income (Loss)	(501,046)	193,127
<u>Adjustments to Reconcile Operating Income to Net Cash Flows Used in Operating Activities</u>		
Depreciation	741,115	684,905
<u>Changes In</u>		
Patient Accounts Receivable	(500,495)	423,188
Supplies and Other Current Assets	461	(49,269)
Accounts Payable, Accrued Expenses, and Other Current Liabilities	13,170	155,287
Estimated Third-Party Payor Settlements	(291,219)	(354,376)
<u>Net Cash Provided by (Used in) Operating Activities</u>	(538,014)	1,052,862
<u>Non-Cash Investing, Capital, and Financing Activities</u>		
Cash Paid for Interest	24,189	9,697
Cash Paid for Income Tax	-	-
Equipment Acquired through Capital Lease Obligations	1,377,042	100,000

The accompanying notes are an integral part of these financial statements.

SOUTHEAST COLORADO HOSPITAL DISTRICT  
SPRINGFIELD, COLORADO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southeast Colorado Hospital District is a local government unit created for the purpose of providing health care to Baca County and the surrounding area.

Reporting Entity

The reporting entity, for financial purposes, is defined as the primary government (Southeast Colorado Hospital District) and its component units. The District has no component units, and the reporting entity consists of the hospital and long-term care facility. Southeast Colorado Hospital District is managed by five board members.

Presentation

The District prepares its financial statements in accordance with accounting principles applicable to hospitals as described in the Audit and Accounting Guide Health Care Entities published by the American Institute of Certified Public Accountants.

Government - Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the nonfiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. All activities of the Southeast Colorado Hospital District are reported as business-type.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SOUTHEAST COLORADO HOSPITAL DISTRICT  
SPRINGFIELD, COLORADO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The District consists of one major proprietary fund.

Proprietary funds distinguish *operating revenues* and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services and ad valorem tax. Operating expenses for the District include the cost of services, administrative expenses, and depreciation on capital assets.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are reported as gross revenue and as a contractual adjustment to determine total operating revenue

Net Patient Service Revenue

Net Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered.

Receivables

Patient accounts receivable are recorded at established rates as services are provided. Provisions for uncollectible accounts is made in amounts required to maintain an adequate allowance for anticipated losses. In some cases, services to patients are paid for by Medicare, Medicaid, or other third parties. The amount reimbursed is generally based upon the cost of the services provided, as defined by government regulations. Account balances are reduced for the estimated amount of contractual allowances.

Property Taxes

Under Colorado Law, all property taxes become due and payable in the year following that in which they are levied. Property taxes are recognized as revenue when payable from the County Treasurer.

Property taxes attach as an enforceable lien on property as of January 1. Taxes may be paid without penalty in either of two ways: (a) Full payment by April 30, or (b) First half must be paid by last day of February, and second half must be paid by June 15.

SOUTHEAST COLORADO HOSPITAL DISTRICT  
SPRINGFIELD, COLORADO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at lower of cost or market, calculated using the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. The District uses the straight-line method for financial statement reporting. Estimated useful lives are 5 to 40 years for equipment and building improvements and 40 years for buildings. Property, plant and equipment with unit costs of less than \$5,000 are expensed in the year purchased.

Compensated Absences (Personnel Annual Leave Payable)

At December 31, 2016 and 2015 the District had liabilities for accrued vacation of \$318,792 and \$241,819 respectively and are included in the "accounts payable and accrued expenses" in the accompanying statement of net position.

Budgetary Accounting

Revenues and expenditures are controlled by budgetary accounting system in accordance with various legal requirements. The budgeted revenues and expenditures represent the original adopted budget as in accordance with Colorado Laws. Budgets are generally prepared on the same basis as that used for accounting purposes.

The District has set procedures to be followed in establishing the budgetary data reflected in the financial statements:

1. Prior to October 15, the Chief Financial Officer submits to the Hospital Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public notices are released to obtain taxpayer comments.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. The Chief Financial Officer is authorized to transfer budgeted amounts between categories, however, any revisions that alter the total expenditures must be approved by the Hospital Board.
5. Formal budgetary integration should be employed as a management control device during the year.
6. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). See Note 6.

SOUTHEAST COLORADO HOSPITAL DISTRICT  
SPRINGFIELD, COLORADO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the district's interest cost was capitalized in 2016 or 2015.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with an original maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payers.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Grants and Contributions

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

Restricted Resources

When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

SOUTHEAST COLORADO HOSPITAL DISTRICT  
SPRINGFIELD, COLORADO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position – Net position of the District is classified in the following four components:

- Net Investment in Capital Assets – consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets.
- Restricted expendable – consist of noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Board, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note .
- Restricted nonexpendable – equal the principal portion of permanent endowments.
- Unrestricted – consist of the remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Operating Revenues and Expenses

The District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Noncurrent Assets – Noncurrent assets primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the balance sheet at December 31, 2016 and 2015.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

- Medicare – As a critical access Hospital, all Medicare revenue sources except Ambulance, Home Health, and Hospice are reimbursed on a cost plus 1% basis. Other Medicare revenues are paid on a per unit of service basis. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2014.

SOUTHEAST COLORADO HOSPITAL DISTRICT  
SPRINGFIELD, COLORADO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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NOTE 1    SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Patient Service Revenue (Continued)

- Medicaid – Inpatient services provided to Medicaid Program beneficiaries are paid prospectively determined rates per discharge. Outpatient and Nursing Facility services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2013.
  
- Blue Cross - Inpatient services rendered to Blue Cross subscribers are reimbursed based on charges less an adjustment of from 2% to 9%.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements is charges less an adjustment of from 2% to 9%.

NOTE 2    DEPOSITS AND INVESTMENTS

The Colorado Public Deposit Protection Act (PDPA), requires that all units of local government deposit cash in eligible public depositories, eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

SOUTHEAST COLORADO HOSPITAL DISTRICT  
 SPRINGFIELD, COLORADO  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2016

NOTE 2    DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2015 and 2016, the District had bank balances as follows:

	2015		2016	
	Carrying Balance	Bank Balance	Carrying Balance	Bank Balance
Insured (FDIC)	318,561	318,561	318,732	318,732
Uninsured, collateralized under the Public Deposit Protection Act of the State of Colorado	4,249,016	4,488,424	5,216,573	5,518,387
Cash with the County Treasurer	3,070	-	2,753	-
Cash on Hand	2,525	-	9,366	-
<u>Total Cash and Deposits</u>	<u>4,573,172</u>	<u>4,806,985</u>	<u>5,547,424</u>	<u>5,837,119</u>
<u>Recap</u>				
Cash and Cash Equivalents	3,856,833		4,827,444	
Certificates of Deposit	716,339		719,980	
<u>Total</u>	<u>4,573,172</u>		<u>5,547,424</u>	

Deposits with a bank balance of \$4,488,424 and \$5,518,387 and carrying balance of \$4,249,016 and \$5,216,573 as of December 31, 2015 and 2016 are uninsured, are exposed to custodial risk, and are collateralized with securities held by the pledging financial institution.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which the local government entities may invest:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

SOUTHEAST COLORADO HOSPITAL DISTRICT  
 SPRINGFIELD, COLORADO  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2016

NOTE 2    DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

At December 31, 2015 and 2016, the District had the following investments:

<u>Year</u>	<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>
2015	Certificates of Deposit	6 to 12 Months	<u>716,339</u>
2016	Certificates of Deposit	6 to 12 Months	<u>719,980</u>

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities for managing possible fair value losses due to increasing interest rates.

Credit Risk – State Law limits the type of investments allowable. The Certificates of deposit are not rated.

Concentration of Credit Risk – The District has no policy restricting the amount that can be invested in any issuer.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of December 31, 2016:

- Certificates of Deposit are valued at cost (Level 3 Inputs)

NOTE 3    ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the District at December 31, 2016 and 2015 consisted of these amounts:

<u>Patient Accounts Receivable</u>	<u>2016</u>	<u>2015</u>
Receivable from Patients and their Insurance Carriers	1,135,559	1,875,538
Receivable from Medicare	3,098,289	2,357,007
Receivable from Medicaid	<u>896,559</u>	<u>532,863</u>
<u>Total Patient Accounts Receivable</u>	5,130,407	4,765,408
Less Allowance for Uncollectibles Amounts	<u>2,629,255</u>	<u>2,764,751</u>
<u>Patient Accounts Receivable, Net</u>	<u>2,501,152</u>	<u>2,000,657</u>
<u>Accounts Payable and Accrued Expenses</u>		
Payable to Employees	631,831	494,692
Payable to Suppliers	166,683	238,434
Self Insurance – Claims Incurred Not Reported	<u>100,000</u>	<u>150,000</u>
<u>Total Accounts Payable and Accrued Expenses</u>	<u>898,514</u>	<u>883,126</u>

SOUTHEAST COLORADO HOSPITAL DISTRICT  
 SPRINGFIELD, COLORADO  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2016

NOTE 4    CAPITAL ASSETS

Capital asset additions, retirements, and balances for the years ended December 31, 2016 and 2015 were as follows:

	<u>Balance</u> <u>Dec.31, 2015</u>	<u>Adjustment</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>Dec. 31, 2016</u>
Land	90,089	-	-	-	90,089
Land Improvements	109,480	-	33,212	-	142,692
Buildings & Improvements	6,021,100	-	-	-	6,021,100
Equipment	7,195,436	1,125	576,381	-	7,772,942
Construction in Progress	<u>1,125</u>	<u>(1,125)</u>	<u>1,421,215</u>	<u>-</u>	<u>1,421,215</u>
<u>Totals at Historical Cost</u>	<u>13,417,230</u>	<u>-</u>	<u>2,030,808</u>	<u>-</u>	<u>15,448,038</u>
Less Accumulated					
Depreciation for:					
Land Improvements	89,374	-	5,663	-	95,037
Buildings & Improvements	3,736,190	-	166,213	-	3,902,403
Equipment	<u>5,666,913</u>	<u>-</u>	<u>569,238</u>	<u>-</u>	<u>6,236,151</u>
<u>Total Accumulated Depreciation</u>	<u>9,492,477</u>	<u>-</u>	<u>741,114</u>	<u>-</u>	<u>10,233,591</u>
<u>Capital Assets, Net</u>	<u>3,924,753</u>	<u>-</u>	<u>1,289,694</u>	<u>-</u>	<u>5,214,447</u>
	<u>Balance</u> <u>Dec.31, 2014</u>	<u>Adjustment</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>Dec. 31, 2015</u>
Land	90,089	-	-	-	90,089
Land Improvements	109,480	-	-	-	109,480
Buildings & Improvements	5,903,962	99,356	17,782	-	6,021,100
Equipment	6,810,822	-	384,614	-	7,195,436
Construction in Progress	<u>100,481</u>	<u>(99,356)</u>	<u>-</u>	<u>-</u>	<u>1,125</u>
<u>Totals at Historical Cost</u>	<u>13,014,834</u>	<u>-</u>	<u>402,396</u>	<u>-</u>	<u>13,417,230</u>
Less Accumulated					
Depreciation for:					
Land Improvements	86,478	-	2,896	-	89,374
Buildings & Improvements	3,577,029	-	159,161	-	3,736,190
Equipment	<u>5,144,065</u>	<u>-</u>	<u>522,848</u>	<u>-</u>	<u>5,666,913</u>
<u>Total Accumulated Depreciation</u>	<u>8,807,572</u>	<u>-</u>	<u>684,905</u>	<u>-</u>	<u>9,492,477</u>
<u>Capital Assets, Net</u>	<u>4,207,262</u>	<u>-</u>	<u>(282,509)</u>	<u>-</u>	<u>3,924,753</u>

SOUTHEAST COLORADO HOSPITAL DISTRICT  
 SPRINGFIELD, COLORADO  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2016

**NOTE 5**    LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

A schedule of changes in the District's noncurrent liabilities for 2016 and 2015 follows:

<u>Changes in Debt</u>	Balance <u>1-1-16</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12-31-16</u>	Amounts Due <u>Within One Year</u>
Lease Purchase Agreements	197,387	2,782,374	191,815	2,787,946	309,031
Notes Payable	<u>100,000</u>	-	<u>100,000</u>	-	-
Total Long-Term Debt	<u>297,387</u>	<u>2,782,374</u>	<u>291,815</u>	<u>2,787,946</u>	<u>309,031</u>
	Balance <u>1-1-15</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>12-31-15</u>	Amounts Due <u>Within One Year</u>
Lease Purchase Agreements	151,110	100,000	53,723	197,387	61,377
Notes Payable	<u>100,000</u>	-	-	<u>100,000</u>	<u>100,000</u>
Total Long-Term Debt	<u>251,110</u>	<u>100,000</u>	<u>53,723</u>	<u>297,387</u>	<u>161,377</u>

<u>Lease Purchase Agreements</u>	<u>2015</u>	<u>2016</u>
1) A lease purchase agreement for the purchase of three copiers was executed September 25, 2012. The original amount was \$16,925 with interest at 8.78% for 5 years with payments of \$349.52 per month	6,855	3,211
2) A lease purchase agreement for the purchase of a Phillips 16 slice CT was executed April 30, 2013. The original amount was \$165,308 with interest at 4.50% for 5 years with payments of \$3,081.64 per month.	81,768	47,770
3) A lease purchase agreement for the purchase of printers was executed June 20, 2014. The original amount was \$29,790 with interest at 3.20% for 5 years with payments of \$538 monthly.	20,867	14,994
4) A lease purchase agreement for the purchase of a Dimension ExL200 Chemistry Immunoassay Integrated System was executed May 21, 2015. The original amount was \$100,000 with interest at 3.183% for 5 years with payments of \$1,805 monthly.	87,897	70,366
5) A lease purchase agreement for the purchase of a Lexmark copier was executed April 20, 2016. The original amount was \$7,177 with interest at 5.64% for 5 years with payments of \$138 monthly.	-	6,225
6) A lease purchase agreement for the purchase of HVAC Equipment was executed October 15, 2016. The original amount was \$2,775,197 with interest at 3.242% for 10 years with payments of \$27,110.04 per month. An additional principal payment of \$90,645 was made on December 28, 2016.	-	<u>2,645,380</u>
<u>Total Lease Purchase Payable</u>	<u>197,387</u>	<u>2,787,946</u>

SOUTHEAST COLORADO HOSPITAL DISTRICT  
 SPRINGFIELD, COLORADO  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2016

NOTE 5    LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (Continued)

The District has entered into lease agreements for the acquisition of equipment. These lease purchase agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at December 31, 2016 and 2015.

<u>Year</u>	<u>2016</u>			<u>2015</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	-	-	-	61,377	6,392	67,769
2017	309,031	86,325	395,356	64,550	3,837	68,387
2018	291,388	76,026	367,414	38,827	1,616	40,443
2019	284,588	66,733	351,321	23,680	670	24,350
2020	278,485	57,512	335,997	8,953	71	9,024
2021	277,176	48,556	325,732	-	-	-
2022	285,876	39,444	325,320	-	-	-
2023	295,283	30,037	325,320	-	-	-
2024	304,999	20,321	325,320	-	-	-
2025	315,036	10,284	325,320	-	-	-
2026	<u>146,084</u>	<u>1,277</u>	<u>147,361</u>	-	-	-
<b>Total Minimum Lease Payments</b>	<u><b>2,787,946</b></u>	<u><b>436,515</b></u>	<b>3,224,461</b>	<u><b>197,387</b></u>	<u><b>12,586</b></u>	<b>209,973</b>
<b>Less: Amount Representing Interest</b>			<u><b>436,515</b></u>			<u><b>12,586</b></u>
<b>Present Value of Future Minimum Lease Payments</b>						<u><b>197,387</b></u>

<u>Notes Payable</u>	<u>2016</u>	<u>2015</u>
A notes payable in the form of a line of credit, was executed on July 10, 2015, with an available principal amount of \$500,000 with an interest rate of 2.60%, maturing July 10, 2016.	-	<u>100,000</u>
<b>Total Notes Payable</b>	<u>-</u>	<u>100,000</u>

NOTE 6    BUDGET

A comparison for budgeted and actual revenues and expenditures as of December 31, 2016 and 2015 is presented in the following schedule:

(This comparison is not a schedule of operations.)

	<u>2016</u>		<u>2015</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Revenues</u>	<u>15,764,483</u>	<u>15,173,372</u>	<u>14,273,059</u>	<u>14,565,426</u>
<u>Expenditures</u>	<u>15,084,077</u>	<u>14,621,903</u>	<u>13,864,158</u>	<u>13,750,534</u>

SOUTHEAST COLORADO HOSPITAL DISTRICT  
SPRINGFIELD, COLORADO  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016

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NOTE 7    CONTINGENCIES

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's bill of rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in property taxes and grants from all state and local governments combined, are excluded from the provisions of TABOR. (The District's management believes its operations qualify for this exclusion).

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of the qualifications of an Enterprise will require judicial interpretation.

The District is not in any claims or actions which will result in costs or losses to the District that are uninsured or of a material nature.

NOTE 8    RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts, thefts of, damage to, or destruction of assets; errors or omissions; injuries to employees, or acts of God.

The Hospital maintains commercial insurance for all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 9    DEFINED CONTRIBUTION PENSION PLAN

The District provides pension benefits for substantially all full time employees through a defined contribution plan of Colorado County Officials and Employees Retirement Association. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. One year of service is required previous to participation in the Colorado County Officials and Employees Retirement Association Plan.

Employees contribute 3% of their salary to the plan with an equal amount contributed by the District. Vesting occurs at the rate of 20% per year. District contributions for, and earnings forfeited by, employees who leave employment before fully vesting are returned to the District.

SOUTHEAST COLORADO HOSPITAL DISTRICT  
 SPRINGFIELD, COLORADO  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2016

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NOTE 9    DEFINED CONTRIBUTION PENSION PLAN (continued)

The following is a summary of the plan activity for 2016 and 2015:

	2016	2015
Total Payroll	7,921,786	7,362,686
Salary for Contributions	7,627,313	5,003,900
District Contributions (at 3%)	168,560	150,117
Employee Contributions (at 3%)	168,560	150,117
Pension Expense	155,301	144,247
Forfeitures	13,259	5,870

The District has no outstanding pension liability at year end.

Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In previous years the District adopted an amendment to its Deferred Compensation Plan with CCOERA. The adoption of the amendment was due to recent changes in the Internal Revenue Code. Specifically the amendment states that all amounts deferred under this plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property or rights shall, until made available to the participant or beneficiary, be held in the Colorado County Officials and Employees Retirement Association Deferred Compensation Plan Trust for the exclusive benefit of participants and their beneficiaries. Colorado County Officials and Employees Retirement Association is trustee of the trust.

Eligible voluntary employee contributions were \$93,360 for 2016 and \$94,201 for 2015.