

# St. Vincent General Hospital District

Basic Financial Statements and  
Independent Auditors' Report

December 31, 2016 and 2015

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*By the Office of the State Auditor at 4:57 pm, Aug 24, 2017*



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

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Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
St. Vincent General Hospital District  
Leadville, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of St. Vincent General Hospital District (the Hospital), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital'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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 auditors consider 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.

## **Opinion**

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

## **Emphasis of Matter Regarding Going Concern**

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in Note 9 to the financial statements, the Hospital may not have sufficient cash or other liquid assets to pay for its obligations that will be due in 2017. In addition, the Hospital has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

## **Other Matter**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 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 that collectively comprise the Hospital's basic financial statements. The schedule of budget and actual revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of budget and actual revenues and expenses 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. Such 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 schedule of budget and actual revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
June 16, 2017

## **St. Vincent General Hospital District Management's Discussion and Analysis Years Ended December 31, 2016 and 2015**

Our discussion and analysis of St. Vincent General Hospital District's (the Hospital's) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2016 and 2015. Please read it in conjunction with the Hospital's financial statements, which begin on page 8.

### **Financial Highlights**

- The Hospital's net position decreased in 2016 by \$598,877, or 19%, as compared with 2015.
- The Hospital reported an operating loss in 2016 of \$2,092,852, a 125% increase from the \$931,975 operating loss reported in 2015 because of flat net patient service revenue, but increased operating costs.
- Nonoperating revenues increased by \$1,102,427, or 125%, in 2016 compared to 2015 primarily due to an increase in two voter approved mill levies and a greater than \$300,000 contribution from Centura Health, the Hospital's management company.
- Net accounts receivable declined by 24% because of a decrease in gross accounts receivable as well as a decrease in the estimated collectability of the accounts receivable.
- Cash declined by 58% from \$982,339 in 2015 to \$413,573 in 2016.

### **Using This Annual Report**

The Hospital'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 financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Our analysis of the Hospital's finances begins on page 4. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital'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. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Hospital's net position and changes in it. You can think of the Hospital's net position — the difference between assets and liabilities — as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

### **The Statement of Cash Flows**

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

**St. Vincent General Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended December 31, 2016 and 2015**

**The Hospital's Net Position**

The Hospital's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 8. The Hospital's net position decreased in 2016 by \$598,877 (19 percent) in 2016, as you can see from Table 1.

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<i>Assets</i>			
Current assets	\$ 2,817,800	\$ 3,518,718	\$ 4,673,894
Noncurrent estimated third-party payor settlements	664,000	414,624	269,135
Capital assets, net	3,100,999	3,167,421	3,503,216
<b>Total assets</b>	<b>6,582,799</b>	<b>7,100,763</b>	<b>8,446,245</b>
<i>Liabilities</i>			
Long-term debt outstanding	\$ 1,080,754	\$ 1,700,677	\$ 2,549,434
Other current and noncurrent liabilities	2,040,490	1,350,936	2,129,539
Total liabilities	3,121,244	3,051,613	4,678,973
<i>Deferred inflows - deferred property tax levy</i>	<b>890,000</b>	878,718	514,645
Total liabilities and deferred inflows of resources	<b>4,011,244</b>	3,930,331	5,193,618
<i>Net Position</i>			
Net investment in capital assets	1,371,805	1,339,947	1,045,451
Unrestricted	1,199,750	1,830,485	2,207,176
Total net position	2,571,555	3,170,432	3,252,627
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 6,582,799</b>	<b>\$ 7,100,763</b>	<b>\$ 8,446,245</b>

**St. Vincent General Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended December 31, 2016 and 2015**

**Operating Results and Changes in The Hospital's Net Position**

In 2016, the Hospital's net position decreased by \$598,877, or 19 percent, as shown in Table 2.

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

	2016	2015	2014
<i>Operating revenues</i>			
Net patient service revenue, net of provision for bad debts	\$ 6,631,473	\$ 6,746,816	\$ 9,995,202
Electronic health records incentive	-	71,300	298,600
Other	29,743	59,200	183,664
<b>Total operating revenues</b>	<b>6,661,216</b>	<b>6,877,316</b>	<b>10,477,466</b>
<i>Operating expenses</i>			
Salaries and benefits	4,505,489	3,733,563	7,230,321
Professional fees and other purchased services	2,230,138	2,173,525	2,319,984
Supplies	431,101	433,554	756,299
Depreciation and amortization	496,187	514,198	516,386
Other operating expenses	1,091,153	954,451	1,189,780
<b>Total operating expenses</b>	<b>8,754,068</b>	<b>7,809,291</b>	<b>12,012,770</b>
<i>Operating loss</i>	<b>(2,092,852)</b>	<b>(931,975)</b>	<b>(1,535,304)</b>
<i>Nonoperating revenues (expenses)</i>			
Taxation for operations	878,946	529,375	527,803
Other nonoperating revenue	358,545	105,689	103,622
County ambulance services subsidy	750,000	250,000	-
Interest expense	(149,337)	(218,099)	(211,842)
Debt issuance costs	(361,567)	-	-
<b>Total nonoperating revenues (expenses), net</b>	<b>1,476,587</b>	<b>666,965</b>	<b>419,583</b>
Excess of expenses over revenues before capital grants	<b>(616,265)</b>	<b>(265,010)</b>	<b>(1,115,721)</b>
<i>Capital grants</i>	<b>17,388</b>	<b>182,815</b>	<b>6,998</b>
Change in net position	<b>(598,877)</b>	<b>(82,195)</b>	<b>(1,108,723)</b>
Net position, beginning of year	<b>3,170,432</b>	<b>3,252,627</b>	<b>4,361,350</b>
<b>Net position, end of year</b>	<b>\$ 2,571,555</b>	<b>\$ 3,170,432</b>	<b>\$ 3,252,627</b>

**St. Vincent General Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended December 31, 2016 and 2015**

**Operating Losses**

The increase in operating losses in 2016 was primarily due to the increase in salary cost in 2016. While there was some shift from purchased services and professional fees into salaries, that net negative effect on purchased services was offset by the increase in management fees because of the management agreement signed with Centura Health in August of 2016. The ambulance service was only operating one ambulance at a time in 2015, and with such short coverage, some 911 calls were not able to have an ambulance response. Also, the ambulance service was unable to handle many transports to Denver because of having only one ambulance. In 2015, Lake County voters approved an increase in mill levies to provide \$750,000 toward the operation of the ambulance service. The Hospital was then able to add an additional ambulance for every shift. This increased labor costs by about \$600,000 in 2016.

Clinic visits, lab tests, and ambulance runs were up substantially in 2016 over 2015 levels. The Hospital provided almost no inpatient or observation services. Most patients requiring this level of care in 2016 were transferred to another facility. This means the Hospital was largely acting as a free-standing emergency center, a physician clinic, and an ambulance service. Management determined in early 2017 that this level of operations does not provide enough revenue to cover the costs of these services. The Hospital has been adding back the inpatient and observation services with no additional labor costs. In 2017, as of June, the Hospital has had over 40 days of inpatient or observation care, compared to 11 days in 2016. This has added significantly to revenue in 2017.

In addition to adding clinical services, management is reducing labor costs in administration, back office support, and some clinical areas to more closely align the cost of care with the payment for the care. Management is also addressing shortfalls in commercial reimbursement. This is being done through revenue cycle improvement work and contract negotiation. The Hospital's lower than expected payment rates for commercial payers is expected to improve substantially in 2017. The Hospital has already seen improvement in claim payments in some areas. The Hospital is also seeking to rework its management agreement with Centura Health to be able to better manage costs, either by eliminating some administrative positions at the Hospital or by reducing the management fees.

**Going Concern**

The Hospital has been pursuing \$20 million in USDA financing for a new hospital building to be built on land next to the existing hospital for the last year and half to two years. As of June 2017, the USDA has decided to not proceed with financing a new facility. The USDA has not officially denied the application, and the USDA already had set aside about \$17.3 million in direct funding (the Hospital was going to secure another \$2.7 million in USDA guaranteed private funding for the project as well). The USDA believed the Hospital's financial performance in 2016 and 2017 was far enough below the CPA-compiled forecast that it could not depend on the forecast for the project. The USDA suggested to the Hospital that it work on a financial turnaround and potentially return to ask for the \$20 million with a new forecast later, or work out another solution that could involve a lower dollar amount or different loan structure.

In the process of applying for the USDA loan and planning to build a new building, the Hospital has taken on about \$1 million in payables and other debt related to construction soft costs, licenses and permits, consulting, and legal advice. The Hospital took out a Tax Anticipation Note in January of 2017 for \$440,000 to help pay some of the initial soft costs. The expectation was that the Hospital would be reimbursed for the loan upon closing the USDA loan and securing the financing. Since this has not occurred, the Hospital has paid the Tax Anticipation Note as of June 15, 2017, out of operating cash. Other associated payables related to the USDA loan have been put on hold for future resolution of the USDA loan. However, it is possible that vendors that did work on the USDA loan may seek payment before a USDA loan resolution is reached. In the case that all creditors that have billed for work related to the USDA loan seek repayment, the Hospital may be unable to make these payments.

**St. Vincent General Hospital District  
Management's Discussion and Analysis (Continued)  
Years Ended December 31, 2016 and 2015**

The Hospital has three years of payments remaining on its 1999 series bond. Because the Hospital has not been able to fund its debt reserve, the payments will need to be made from cash flow generated in the current fiscal year. Through May 2017, the net patient revenue is about 3% higher than 2016 and expenses are 2.5% higher. Given the negative cash flow generated under the same conditions in the prior year, the Hospital is projecting to need to significantly cut labor costs and other operational expenses and increase patient volumes and revenue in order to make the bond payment in 2017.

Management has begun the process of reducing labor costs and increasing services as discussed above to achieve better returns from operations. The forecast to make the bond payment in 2017 requires increasing cash collections from patient services by 10% over the prior year and cutting labor costs by about 12%.

The cash pressures would be considerably ameliorated should the Hospital be able to refinance its existing debt or acquire a loan for the new facility since the existing debt would be refinanced in that loan. Management continues to pursue action in these directions.

**Nonoperating Revenues and Expenses**

Nonoperating revenues consist primarily of property taxes levied by the Hospital and voter approved county taxes to support the emergency medical services. Taxes collected in 2016 were just over \$1.6 million, and tax revenues for 2017 are projected to be about the same.

**Capital Asset and Debt Administration**

***Capital Assets***

At the end of 2016, the Hospital had \$3.1 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2016, the Hospital has no significant capital purchases other than the construction soft costs described above. The Hospital has applied for grant funding for an ambulance to be purchased in the latter half of 2017 or early 2018 to replace its aging fleet. Also, as of June 2017, the Hospital is required to replace its boiler and heat delivery system before September 2017 since it is almost 60 years old and has begun to leak. The capital repairs are expected to cost between \$2 million to \$2.5 million. This work will require financing, and the Hospital has begun efforts to seek lenders for this project. Given the Hospital's finances, it is unknown whether the Hospital will be able to secure the financing necessary to maintain heat. If the Hospital is unable to repair the boiler and heating system by September, it is not expected that the Hospital will be able to remain operational.

***Debt***

At year end, the Hospital had \$1.4 million in long-term debt outstanding, compared with \$1.8 million at the end of 2015. In 2016, the Hospital serviced the debt from operating funds because the debt reserve fund was emptied by management in 2015. In 2017, the Hospital made an interest payment in June and is adjusting operational expenses in order to use cash flow to pay the bond payment in December of 2017.

**Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional information, contact the Hospital Chief Financial Officer or the Administrator at St. Vincent General Hospital District, 822 West Fourth Street, Leadville, Colorado 80461.

**St. Vincent General Hospital District**  
**Statements of Net Position**  
**December 31, 2016 and 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 413,573	\$ 982,339
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately \$1,400,000 and \$783,000, respectively	854,129	1,118,193
Property taxes	906,336	878,718
Estimated third-party payor settlements	418,000	223,612
Electronic health records incentive	-	71,300
Inventories	75,597	74,764
Prepaid expenses	86,727	91,183
Other current assets	63,438	78,609
Total current assets	2,817,800	3,518,718
<i>Noncurrent assets</i>		
Estimated third-party payor settlements	664,000	414,624
Capital assets, net	3,100,999	3,167,421
Total noncurrent assets	3,764,999	3,582,045
<b>Total assets</b>	<b>\$ 6,582,799</b>	<b>\$ 7,100,763</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<i>Current liabilities</i>		
Accounts payable	\$ 663,409	\$ 493,616
Capital accounts payable	327,109	-
Accrued compensation and related liabilities	421,619	244,555
Current maturities of long-term debt	448,922	451,715
Current maturities of electronic health records incentives recoupment	179,431	161,050
Total current liabilities	2,040,490	1,350,936
<i>Long-term debt, net of current maturities</i>	953,163	1,375,759
<i>Electronic health records incentives recoupment, net of current maturities</i>	127,591	324,918
Total liabilities	3,121,244	3,051,613
<i>Deferred inflows of resources, property tax levy</i>	890,000	878,718
Total liabilities and deferred inflows of resources	4,011,244	3,930,331
<i>Net position</i>		
Net investment in capital assets	1,371,805	1,339,947
Unrestricted	1,199,750	1,830,485
Total net position	2,571,555	3,170,432
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 6,582,799</b>	<b>\$ 7,100,763</b>

See accompanying notes to basic financial statements.

**St. Vincent General Hospital District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$822,000 and \$717,000, respectively	\$ 6,631,473	\$ 6,746,816
Electronic health records incentive	-	71,300
Other	29,743	59,200
<b>Total operating revenues</b>	<b>6,661,216</b>	<b>6,877,316</b>
<i>Operating expenses</i>		
Salaries and wages	3,783,728	3,021,180
Employee benefits	721,761	712,383
Professional fees and other purchased services	2,230,138	2,173,525
Supplies	431,101	433,554
Depreciation and amortization	496,187	514,198
Insurance	90,433	140,731
Utilities	153,226	164,158
Repairs and maintenance	298,140	246,672
Leases and rentals	79,285	78,234
Provider fees	204,832	206,371
Other	265,237	118,285
<b>Total operating expenses</b>	<b>8,754,068</b>	<b>7,809,291</b>
<i>Operating loss</i>	<b>(2,092,852)</b>	<b>(931,975)</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	878,946	529,375
Noncapital contributions	317,930	42,650
Other nonoperating revenue	40,615	63,039
County ambulance services subsidy	750,000	250,000
Interest expense	(149,337)	(218,099)
Debt issuance costs	(361,567)	-
<b>Total nonoperating revenues (expenses), net</b>	<b>1,476,587</b>	<b>666,965</b>
Excess of expenses over revenues before capital grants	<b>(616,265)</b>	<b>(265,010)</b>
<i>Capital grants</i>	<b>17,388</b>	<b>182,815</b>
Change in net position	<b>(598,877)</b>	<b>(82,195)</b>
Net position, beginning of year	<b>3,170,432</b>	<b>3,252,627</b>
<b>Net position, end of year</b>	<b>\$ 2,571,555</b>	<b>\$ 3,170,432</b>

See accompanying notes to basic financial statements.

**St. Vincent General Hospital District**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	2016	2015
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 6,451,773	\$ 7,651,758
Electronic health records incentive payment	71,300	298,600
Other receipts	44,914	59,200
Payments to and on behalf of employees	(4,328,425)	(3,962,980)
Payments to suppliers and contractors	(3,427,133)	(3,983,562)
Net cash provided by (used in) operating activities	<b>(1,187,571)</b>	63,016
<i>Cash flows from noncapital financing activities</i>		
Taxation for operations	862,610	529,375
Contributions	6,303	42,650
Other receipts	37,285	29,736
County subsidy for ambulance services	750,000	250,000
Principal paid on electronic health records incentives recoupment	(178,946)	(279,996)
Interest paid on electronic health records incentives recoupment	(43,431)	(54,934)
Net cash provided by noncapital financing activities	<b>1,433,821</b>	516,831
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(63,167)	(213,134)
Proceeds from sale of capital assets	-	367,025
Proceeds from capital grants	17,388	182,815
Principal paid on long-term debt	(464,878)	(630,291)
Interest paid on long-term debt	(105,906)	(163,165)
Debt issuance costs	(201,783)	-
Net cash used in capital and related financing activities	<b>(818,346)</b>	(456,750)
<i>Cash flows from investing activities</i>		
Investment income	3,330	1,009
Net increase (decrease) in cash and cash equivalents	<b>(568,766)</b>	124,106
Cash and cash equivalents, beginning of year	<b>982,339</b>	858,233
<b>Cash and cash equivalents, end of year</b>	<b>\$ 413,573</b>	<b>\$ 982,339</b>

*See accompanying notes to basic financial statements.*

**St. Vincent General Hospital District  
Statements of Cash Flows (Continued)  
Years Ended December 31, 2016 and 2015**

	2016	2015
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (2,092,852)	\$ (931,975)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:</i>		
Depreciation and amortization	496,187	514,198
Provision for bad debts	822,242	717,021
Decrease (increase) in assets:		
Patient accounts receivable, net	(558,178)	(597,914)
Estimated third-party payor settlements	(443,764)	573,200
Electronic health record receivable	71,300	227,300
Inventories	(833)	57,724
Prepaid expenses	4,456	7,900
Other current assets	15,171	212,635
Increase (decrease) in liabilities:		
Accounts payable	321,636	(487,656)
Accrued compensation and related liabilities	177,064	(229,417)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (1,187,571)</b>	<b>\$ 63,016</b>

*See accompanying notes to basic financial statements.*

**St. Vincent General Hospital District  
Notes to Basic Financial Statements  
Years Ended December 31, 2016 and 2015**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

St. Vincent General Hospital District (the Hospital) operates a critical access hospital licensed for 25 beds and a provider-based clinic in Leadville, Colorado. The Hospital district was created in 1988 as a political subdivision of the state of Colorado for the sole purpose of operating St. Vincent General Hospital. As a political subdivision of the state of Colorado, the Hospital is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of the state law. The Hospital provides healthcare services to Lake County. The Hospital is governed by a Board of Directors consisting of five members elected by the residents of the District. The Hospital is not a component unit of another government entity.

**b. Summary of Significant Accounting Policies**

**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.

**Enterprise fund accounting** – The Hospital’s accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

**Cash and cash equivalents** – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

**Prepaid expenses** – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit of the related expense.

**Inventories** – Supply inventories are stated at cost, determined using the first-in, first-out method. Inventories consist of pharmaceutical, medical, and other supplies used in the operations of the Hospital.

**Capital assets** – It is the Hospital’s policy to capitalize property and equipment over \$5,000 and a useful life of at least three years; lesser amounts are expensed. Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets other than land are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense.

Estimated useful lives are as follows:

Land improvements	7 to 20 years
Buildings and improvements	5 to 40 years
Major movable equipment	3 to 26 years
Fixed equipment	5 to 20 years

**St. Vincent General Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2016 and 2015**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

**Compensated absences** – The Hospital’s policies permit most employees to accumulate vacation benefits that may be realized as paid time off. The expense and the related liability are recognized as vacation benefits are earned. Compensated absence liabilities are computed using the regular pay rate in effect at the statement of net position dates plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

**Net position** – Net position has three classifications. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*. The Hospital had no restricted net position as of December 31, 2016 or 2015.

**Operating revenues and expenses** – The Hospital’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities, associated with providing healthcare 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 healthcare services other than financing costs.

**Grants and contributions** – From time to time, the Hospital receives grants from the state of Colorado and others 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 restricted for capital acquisitions are reported after nonoperating revenues and expenses. Grants that are restricted for specific projects or purposes related to the Hospital’s operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

**Restricted resources** – When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital’s policy to use restricted resources before unrestricted resources.

**Subsequent events** – The Hospital has evaluated subsequent events and transactions through June 16, 2017, the date on which the financial statements were available to be issued.

**St. Vincent General Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**2. Bank Deposits and Investments:**

*Deposits* – Under Colorado State statute, the Commercial Bank Code Public Deposit Protection Act of 1989 (PDPA) protects public funds held in bank deposit accounts in the event that the bank holding the public deposits becomes insolvent. As defined by the PDPA, deposit accounts include checking, savings, bank money market, and certificate of deposit accounts. Banks must deliver bank assets (usually securities) to a third-party institution, which are pledged to the Colorado Division of Banking, for all Colorado public depositors.

The Hospital's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Any excess of deposits over the FDIC limit not insured is covered by collateral pledged by the financial institution in accordance with the PDPA.

Custodial credit risk is the risk that, in the event of a depository institution failure, the Hospital's deposits may not be returned.

*Investments* – Colorado State statutes authorize the Hospital to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, banker's acceptance notes, commercial paper, repurchase agreements, money market funds, and guaranteed investment contracts. All investments must be held by the Hospital, in its name, or in custody of a third party on behalf of the local government. The Hospital had no investments at December 31, 2016 or 2015.

**St. Vincent General Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**3. Patient Accounts Receivable:**

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts. The Hospital's allowance for uncollectible accounts for self-pay patients increased in 2016 due to a significant increase in the self-pay balance at year end, particularly in older accounts. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the Hospital were as follows:

	<b>2016</b>	<b>2015</b>
Receivable from patients and their insurance carriers	\$ 2,048,999	\$ 1,526,379
Receivable from Medicare	134,883	213,009
Receivable from Medicaid	70,484	162,294
Total patient accounts receivable	<b>2,254,366</b>	1,901,682
Less allowance for uncollectible accounts	<b>(1,400,237)</b>	(783,489)
<b>Patient accounts receivable, net</b>	<b>\$ 854,129</b>	<b>\$ 1,118,193</b>

**St. Vincent General Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**4. Property Taxes:**

The Lake County Treasurer acts as an agent to assess and collect property taxes levied in the county for all taxing authorities. Property taxes are levied and assessed on December 22 of the prior year on property values assessed as of May 1 of the prior year. Taxes are due in two equal amounts by February 28 and June 15, or all may be paid by April 30. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the Hospital. The assessed property is subject to lien on the levy date, therefore, no allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates.

For 2016, the Hospital's regular tax levy was \$9.106 per \$1,000 on a total assessed valuation of \$96,498,822, for a total regular levy of \$878,718.

For 2015, the Hospital's regular tax levy was \$5.481 per \$1,000 on a total assessed valuation of \$93,896,302, for a total regular levy of \$514,645.

**5. Capital Assets:**

Capital asset additions, retirements, transfers, and balances reported by the Hospital were as follows:

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ -	\$ 424,462	\$ -	\$ -	\$ 424,462
Total capital assets not being depreciated	-	424,462	-	-	424,462
<i>Capital assets being depreciated</i>					
Land improvements	142,745	-	-	-	142,745
Buildings and improvements	6,250,184	-	-	-	6,250,184
Major movable equipment	5,420,536	5,303	(125,860)	-	5,299,979
Fixed equipment	368,463	-	-	-	368,463
Total capital assets being depreciated	12,181,928	5,303	(125,860)	-	12,061,371
<i>Less accumulated depreciation for</i>					
Land improvements	140,925	167	-	-	141,092
Buildings and improvements	3,962,329	134,907	-	-	4,097,236
Major movable equipment	4,598,828	348,214	(125,860)	-	4,821,182
Fixed equipment	312,425	12,899	-	-	325,324
Total accumulated depreciation	9,014,507	496,187	(125,860)	-	9,384,834
Total capital assets being depreciated, net	3,167,421	(490,884)	-	-	2,676,537
<b>Capital assets, net</b>	<b>\$ 3,167,421</b>	<b>\$ (66,422)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,100,999</b>

**St. Vincent General Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**5. Capital Assets (continued):**

Capital asset additions, retirements, transfers, and balances reported by the Hospital were as follows:

	Balance December 31, 2014	Additions	Retirements	Transfers	Balance December 31, 2015
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 6,609	\$ -	\$ (6,609)	\$ -	\$ -
Total capital assets not being depreciated	6,609	-	(6,609)	-	-
<i>Capital assets being depreciated</i>					
Land improvements	142,745	-	-	-	142,745
Buildings and improvements	6,250,184	-	-	-	6,250,184
Major moveable equipment	5,258,489	213,134	(51,087)	-	5,420,536
Fixed equipment	373,521	-	(5,058)	-	368,463
Total capital assets being depreciated	12,024,939	213,134	(56,145)	-	12,181,928
<i>Less accumulated depreciation for</i>					
Land improvements	140,759	166	-	-	140,925
Buildings and improvements	3,824,547	137,782	-	-	3,962,329
Major movable equipment	4,262,909	363,140	(27,221)	-	4,598,828
Fixed equipment	300,117	13,110	(802)	-	312,425
Total accumulated depreciation	8,528,332	514,198	(28,023)	-	9,014,507
<i>Total capital assets being depreciated, net</i>	3,496,607	(301,064)	(28,122)	-	3,167,421
<b>Capital assets, net</b>	<b>\$ 3,503,216</b>	<b>\$ (301,064)</b>	<b>\$ (34,731)</b>	<b>\$ -</b>	<b>\$ 3,167,421</b>

Construction in progress at December 31, 2016, consisted of architectural and design costs for the construction of a new hospital building. It is not yet known what the cost to complete the building or the date of completion of the building will be.

**St. Vincent General Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**6. Healthcare Self-insurance:**

The Hospital partially self-insures the cost of employee healthcare benefits as it purchases annual stop-loss insurance coverage for all claims in excess of \$35,000 per claim. Liabilities on the statements of net position include an accrual for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The Hospital's self-insurance is recorded in accrued compensation and related liabilities.

Changes in the Hospital's claim liability are as follows:

	2016	2015
Claim liability, beginning of year	\$ 40,000	\$ 211,094
Current year claims and changes in estimates	302,615	131,177
Claims payments	(225,604)	(302,271)
Claim liability, end of year	\$ 117,011	\$ 40,000

**7. Long-term Debt and Other Noncurrent Liabilities:**

A schedule of changes in the Hospital's noncurrent liabilities follows:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due within One Year
Series 1999 Hospital					
Revenue Bonds	\$ 1,775,000	\$ -	\$ (405,000)	\$ 1,370,000	\$ 430,000
Capital lease obligations	52,474	39,489	(59,878)	32,085	18,922
Medicare electronic health records incentives recoupment	485,968	-	(178,946)	307,022	179,431
<b>Total long-term debt and other noncurrent liabilities</b>	<b>\$ 2,313,442</b>	<b>\$ 39,489</b>	<b>\$ (643,824)</b>	<b>\$ 1,709,107</b>	<b>\$ 628,353</b>

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amounts Due within One Year
Series 1999 Hospital					
Revenue Bonds	\$ 2,160,000	\$ -	\$ (385,000)	\$ 1,775,000	\$ 405,000
Capital lease obligations	297,765	-	(245,291)	52,474	46,715
Medicare electronic health records incentives recoupment	765,964	-	(279,996)	485,968	161,050
<b>Total long-term debt and other noncurrent liabilities</b>	<b>\$ 3,223,729</b>	<b>\$ -</b>	<b>\$ (910,287)</b>	<b>\$ 2,313,442</b>	<b>\$ 612,765</b>

**St. Vincent General Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**7. Long-term Debt and Other Noncurrent Liabilities (continued):**

The terms and due dates of the Hospital's long-term debt and other noncurrent liabilities were as follows:

- The Series 1999 Hospital Revenue Bonds ("Series 1999 Bonds") were issued on June 1, 1999, in the amount of \$6,005,000 to finance the equipping, expanding, and renovating of the Hospital's facilities. The bonds mature December 1, 2019. Interest is payable semiannually on June 1 and December 1 at 6.0%. Principal is due on December 1 of each year.

The bonds are subject to mandatory sinking fund redemptions on each December 1 and are subject to early redemption at the option of the Hospital. The bonds are secured by net pledged revenues, as defined, and require the establishment of a reserve fund. The reserve fund was depleted in 2015 and had not yet been replenished as of December 31, 2016. In connection with the bonds, the Hospital is required, among other covenants, to maintain a debt service coverage ratio of 1.25 to 1. As of December 31, 2016 and 2015, the Hospital was not in compliance with the debt service coverage ratio. As a result, the Hospital may be required to engage a consultant to make written recommendations with respect to its operations in order to meet the debt service coverage ratio at the earliest possible date.

- Capital lease obligations, at varying rates of interest ranging from 2.5% to 6.4%, collateralized by the related equipment with maturity dates ranging from 2017 to 2018. Assets under capital leases at December 31, 2016, are recorded at cost of \$201,953 and accumulated amortization of \$114,243. Assets under capital leases at December 31, 2015, are recorded at cost of \$1,043,211 and accumulated amortization of \$786,348.
- During 2014, the Hospital was notified by the Centers for Medicare and Medicaid Services (CMS) that the results of an audit indicated that the Hospital did not meet meaningful use criteria required to be eligible for incentive payments made in prior years. In 2015, CMS notified the Hospital that it was recouping \$765,964 of prior incentive payments made to the Hospital. A total of \$197,454 of the principal balance and an additional \$29,043 of interest were recouped through offsets to ongoing Medicare payments through June 2015. In July 2015, the Hospital began making regularly scheduled payments of \$18,545 including principal and interest. In March 2016, the Hospital's monthly payments were reduced to \$16,966. Interest on the outstanding balance accrues at 10.75%.

Scheduled principal and interest payments on long-term debt, capital lease obligations, and the electronic health records incentives recoupment are as follows:

Years Ending December 31,	Long-term Debt		Capital Lease Obligations		Recoupment	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 430,000	\$ 82,200	\$ 18,922	\$ 51	\$ 179,431	\$ 24,161
2018	455,000	56,400	13,163	-	127,591	4,984
2019	485,000	29,100	-	-	-	-
	<b>\$ 1,370,000</b>	<b>\$ 167,700</b>	<b>\$ 32,085</b>	<b>\$ 51</b>	<b>\$ 307,022</b>	<b>\$ 29,145</b>

**St. Vincent General Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**8. Net Patient Service Revenue:**

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. The Hospital's provisions for bad debts and writeoffs increased in 2016 due to an increase in revenue from self-pay patients. The Hospital has not changed its charity care or uninsured discount policies during fiscal year 2016. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	<b>2016</b>	<b>2015</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ <b>1,638,947</b>	\$ 1,613,377
Medicaid	<b>865,412</b>	786,022
Other third-party payors	<b>2,714,756</b>	2,344,651
Patients	<b>810,097</b>	705,834
Colorado supplemental payments	<b>1,424,503</b>	2,013,953
	<b>7,453,715</b>	7,463,837
Less:		
Provision for bad debts	<b>822,242</b>	717,021
Net patient service revenue	\$ <b>6,631,473</b>	\$ 6,746,816

**St. Vincent General Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**8. Net Patient Service Revenue (continued):**

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

- *Medicare* – The Hospital has been designated a critical access hospital by Medicare and is reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. 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 administrative contractor. Physician services are reimbursed on a fee schedule.
- *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 were paid on a cost basis, with a statutory reduction, through October 31, 2016. Through October 31, 2016, the Hospital was 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 Medicaid. Effective November 1, 2016, the Hospital is paid for outpatient services based on prospectively determined rates. Physician services are reimbursed on a fee schedule.
- *Other* – The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$115,000 in 2016, due to differences between original estimates and final settlements or revised estimates. There were no changes to net patient service revenue in 2015 due to differences between original estimates and final settlements or revised estimates.

Under the Colorado Health Care Affordability Act (Act), the Hospital pays provider fees to the state of Colorado. The provider fees are based on inpatient days and outpatient charges. The Hospital also receives various supplemental payments from the state of Colorado under this Act.

The Hospital received approximately \$1,425,000 from supplemental Medicaid payments and the Colorado Indigent Care Program in 2016 to subsidize the cost of caring for uninsured patients. The Hospital received approximately \$2,014,000 from supplemental Medicaid payments and the Colorado Indigent Care Program in 2015 to subsidize the cost of caring for uninsured patients.

The Hospital did not provide any charity care in 2015 or 2016.

**St. Vincent General Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**9. Contingencies and Commitments:**

***Medical malpractice claims*** – The Hospital has professional liability insurance coverage with COPIC Insurance Company. The policy provides protection on an “occurrence-made” basis whereby claims filed in the current year are covered by the effective policy at the time of occurrence. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has a \$10,000 deductible per claim. The Hospital also maintains excess liability coverage with limits of \$5,000,000 per claim and \$5,000,000 aggregate.

No liability has been accrued for future coverage for acts occurring in this or prior years. Also, it is possible that claims may exceed coverage obtained in any given year.

***Industry regulations*** – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the Hospital is found in violation of these laws, the Hospital could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

***Tax, spending, and debt limitations*** – At the November 3, 1992, general election, Colorado voters approved an amendment to the Colorado Constitution, Article X, Section 20, commonly known as the Taxpayer’s Bill of Rights (TABOR). TABOR was effective December 31, 1992, and its provisions limit government taxes, spending revenues, and debt without electoral approval.

TABOR, by its terms, applies to local governments such as special districts, but excludes “enterprises,” which are defined as (1) a government owned business, (2) authorized to issue its own debt, and (3) receives less than 10% of its annual revenue in grants from all state and local governments. TABOR is complex and subject to judicial interpretation. The Hospital believes it is in compliance with the requirements of TABOR. However, the Hospital has made certain interpretations of TABOR’s language in order to determine its compliance.

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

**St. Vincent General Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2016 and 2015**

**9. Contingencies and Commitments (continued):**

*Management fees* – In February 2015, the Hospital entered into a Hospital Management Agreement (the Agreement) with Centura Health. Under the Agreement, Centura oversees an administrator selected by and under the oversight of the Hospital’s Board of Directors to manage the operations of the Hospital’s healthcare facilities. The Hospital is committed to paying Centura on a monthly basis the actual compensation, benefits, and expenses of the administrator. The Hospital must also pay a monthly management fee. The Agreement was amended in 2016 with an effective date of August 1, 2016. Under the amended Agreement, Centura will provide additional management services and may hire additional key personnel to provide management services. The Hospital is committed to paying Centura on a monthly basis the actual compensation, benefits, and expenses of the key personnel. The term of the Agreement ends each July 31. The Agreement will be renewed if neither party terminates the Agreement prior to the end of the term. The Hospital incurred management fees of approximately \$153,000 and \$50,000 in 2016 and 2015, respectively. The Hospital owed Centura \$311,627 as of December 31, 2016, under the Agreement. However, Centura forgave the debt, and it was written off in 2016. The debt forgiveness was recorded as contribution revenue in noncapital contributions on the statements of revenues, expenses, and changes in net position.

*Going concern* – As indicated in the accompanying financial statements, the Hospital reported a decrease in net position of \$598,877 during the year ended December 31, 2016. The Hospital had a balance of \$413,573 in cash and cash equivalents as of December 31, 2016, but the Hospital had a decrease in cash and cash equivalents of \$568,766 in 2016. Additional losses in 2017 would likely result in insufficient funds for obligations as they come due. Those factors create an uncertainty about the Hospital’s ability to continue as a going concern. Hospital management amended its management agreement with Centura in 2016 to increase the scope of management services provided and further integrate the Hospital’s operations with Centura’s operations. The Hospital also transferred its business office operations to a separate third-party service provider in 2016 that is expected to reduce cost and improve collections. The Hospital is also seeking to obtain low-interest financing to build a new hospital as the current facility is aged and in need of many repairs. The ability of the Hospital to continue as a going concern is dependent on the success of these plans. The financial statements do not include any adjustments that might be necessary if the Hospital is unable to continue as a going concern.

**10. Deferred Compensation Plan:**

The Hospital provides employees with a deferred compensation pension plan in accordance with Internal Revenue Code Section 403(b). The St. Vincent Hospital, Leadville, CO 403(b) Plan (the 403(b) Plan) allows for employee contributions only. Employees automatically become eligible to contribute as of beginning employment. The 403(b) Plan was frozen for contributions in 2015 until August 2015.

The Hospital is also the administrator of a deferred compensation pension plan in accordance with Internal Revenue Code Section 401(a). The Hospital discontinued contributions to the Plan in January 2015. The St. Vincent General Hospital District Employees Pension Plan (the Plan) is a defined contribution plan that was previously available to full-time employees with at least one year of service who had reached age 21. Plan participants vested in contributions based on a six-year vesting schedule. The Plan allowed for employer contributions only. Contributions were set at 4% of employee compensation. While the Plan is frozen, the Hospital still administers the Plan, and employees with balances in the Plan still have access to the benefits provided by their Plan balances.

The 403(b) Plan and the Plan are administered by the Hospital. The Hospital may amend the provisions of the plans at its discretion.

**St. Vincent General Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2016 and 2015**

**11. Concentration of Credit Risk:**

*Patient accounts receivable* – The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The following is the mix of receivables from patients and third-party payors reported by the Hospital:

	<b>2016</b>	<b>2015</b>
Medicare	8 %	21 %
Medicaid	9	20
Other third-party payors	29	26
Patients	54	33
	<b>100 %</b>	<b>100 %</b>

*Physicians* – The Hospital is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on Hospital operations.

**12. Electronic Health Records Incentive Payments:**

The Hospital recognized a Medicaid electronic health records (EHR) incentive payment during the year ended December 31, 2015. The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The Hospital recognizes the first of its three Medicaid incentive payments in the year that certified EHR technology is adopted, implemented, or upgraded or when such technology is meaningfully used under the Medicare EHR incentive program. The subsequent two payments are issued when meaningful use is demonstrated under Medicare. The Hospital recognized the first two Medicaid payments in previous years. The third-year Medicaid incentive payment of \$71,300 was recognized as revenue for the year ended December 31, 2015.

The Hospital recognizes Medicare incentive payments on the date that the Hospital has successfully complied with meaningful use criteria during the entire EHR reporting period. The Hospital first attested to meaningful use with the Centers for Medicare and Medicaid Services (CMS) in 2012. The Medicare EHR reporting period is through December 31 of each year. As described in Note 7, the Hospital has to repay its Medicare incentive payment.

**13. Intergovernmental Agreement:**

Lake County voters approved an increase in county tax levies for 2016 to fund an intergovernmental agreement between the county and the Hospital. The agreement was entered into in September 2015. The agreement was effective beginning January 1, 2016. Per the agreement, the Hospital will provide ambulance services for the county, and the county will pay the Hospital \$750,000 per year from the tax revenues.

**St. Vincent General Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2016 and 2015**

**14. Budget and Actual Revenues and Expenses:**

The district overspent its approved budget by \$504,736 in 2016.

**15. Subsequent Event:**

Tax anticipation note – The Hospital borrowed \$440,000 in January 2017 at an interest rate of 3.75%. The note is to be repaid from funds received from the Hospital's property tax levy. The note matures on June 30, 2017.

**SUPPLEMENTARY INFORMATION**

**St. Vincent General Hospital District**  
**Schedule of Budget and Actual Revenues and Expenses**  
**Year Ended December 31, 2016**

	Actual	Budget	Favorable (Unfavorable) Variance
<i>Operating revenues</i>			
Net patient service revenue, net of provision for bad debts of approximately \$822,000	\$ 6,631,473	\$ 6,097,172	\$ 534,301
Other	29,743	12,000	17,743
<b>Total operating revenues</b>	<b>6,661,216</b>	<b>6,109,172</b>	<b>552,044</b>
<i>Operating expenses</i>			
Salaries and wages	3,783,728	3,611,918	(171,810)
Employee benefits	721,761	899,008	177,247
Professional fees and other purchased services	2,230,138	1,921,610	(308,528)
Supplies	431,101	294,381	(136,720)
Depreciation and amortization	496,187	491,000	(5,187)
Insurance	90,433	94,261	3,828
Utilities	153,226	124,128	(29,098)
Repairs and maintenance	298,140	175,406	(122,734)
Leases and rentals	79,285	-	(79,285)
Provider fees	204,832	-	(204,832)
Other	265,237	137,620	(127,617)
Budget amendment	-	500,000	500,000
<b>Total operating expenses</b>	<b>8,754,068</b>	<b>8,249,332</b>	<b>(504,736)</b>
<i>Operating loss</i>	<b>(2,092,852)</b>	<b>(2,140,160)</b>	<b>47,308</b>
<i>Nonoperating revenues (expenses)</i>			
Taxation for operations	878,946	878,718	228
Noncapital contributions	317,930	225,000	92,930
Other nonoperating revenue	40,615	65,500	(24,885)
County ambulance services subsidy	750,000	750,000	-
Interest expense	(149,337)	(115,352)	(33,985)
Debt issuance costs	(361,567)	-	(361,567)
<b>Total nonoperating revenues (expenses), net</b>	<b>1,476,587</b>	<b>1,803,866</b>	<b>(327,279)</b>
Excess of expenses over revenues before capital grants	(616,265)	(336,294)	(279,971)
<i>Capital grants</i>	17,388	-	17,388
<b>Change in net position</b>	<b>\$ (598,877)</b>	<b>\$ (336,294)</b>	<b>\$ (262,583)</b>

See accompanying independent auditors' report.