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UPPER SAN JUAN HEALTH SERVICE DISTRICT  
BASIC FINANCIAL STATEMENTS  
AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

December 31, 2016 and 2015



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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

May 3, 2017

Board of Directors  
Upper San Juan Health Service District

We have audited the accompanying financial statements of Upper San Juan Health Service 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 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 District'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 District'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.



Upper San Juan Health Service District  
May 3, 2017  
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**OPINIONS**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Upper San Juan Health Service District as of December 31, 2016 and 2015, and the changes in financial position and cash flows 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 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Upper San Juan Health Service District's basic financial statements. The schedule of revenues and expenditures – budget and actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of revenues and expenditures – budget and actual is the responsibility of management and was derived from and relate 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 revenues and expenditures – budget is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Chadwick, Steinkirchner, Davis & Co., P.C.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This discussion and analysis is designed to provide an assessment of the Upper San Juan Health Service District's financial condition and operating results and to inform the reader on District financial issues and activities. Please read it in conjunction with the District's financial statements that follow the MD&A.

### HIGHLIGHTS

Between 2015 and 2016,

- Net position increased by \$2,884,338 (10.3% of net revenues).
- Total operating revenues increased 7.8%, from \$25,979,611 to \$28,015,845. Operating revenues exclude revenues from capital grants and donations while some operating expenses include the cost of generating some of those revenues.
- Total operating expenses, including interest, increased 11%, from \$25,967,211 to \$28,779,132.
- Total assets, net of depreciation, increased by \$12,059,882 to \$37,796,993.
- Cash increased by \$3,436,828 to \$8,367,318.
- Total liabilities increased by \$9,167,618 to \$28,103,872.

### USING THIS ANNUAL REPORT

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements and schedules are included:

- Statements of net position – reports the District's current financial resources (short-term spendable resources with capital assets and long-term obligations).
- Statements of revenues, expenses and changes in net position – reports the District's operating and non-operating revenues by major source along with operating and non-operating expenses and contributions.
- Statements of cash flows – reports the District's cash flows from operating, investing, capital and non-capital activities.
- Supplemental schedule of revenues and expenses – budget and actual – (non-GAAP budgetary basis), which report the District's revenues and expenditures on the same basis as the budget.

## STATEMENT OF NET POSITION

The following table shows the condensed statement of net position for the past two years.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$15,660,920	\$12,258,123	\$ 9,600,242
Capital assets	<u>22,136,073</u>	<u>13,478,988</u>	<u>13,426,914</u>
Total assets	37,796,993	25,737,111	23,027,156
Current liabilities	6,667,287	6,198,832	4,133,201
Non-current liabilities	<u>21,436,585</u>	<u>12,737,422</u>	<u>13,866,479</u>
Total liabilities	28,103,872	18,936,254	17,999,680
Deferred inflows	<u>1,079,964</u>	<u>1,072,038</u>	<u>1,052,166</u>
Total deferred inflows	<u>1,079,964</u>	<u>1,072,038</u>	<u>1,052,166</u>
Net position			
Net investment in capital assets	1,958,252	862,694	421,579
Unrestricted	<u>6,654,905</u>	<u>4,866,125</u>	<u>3,553,731</u>
Total net position	<u>\$8,613,157</u>	<u>\$5,728,819</u>	<u>\$3,975,310</u>

## REVIEW OF REVENUES

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues			
Charges for services	\$25,028,794	\$23,399,160	\$18,845,122
Provider Fee	1,427,441	1,522,232	640,040
Operating grants	48,243	291,390	894,343
Other	<u>1,511,367</u>	<u>766,829</u>	<u>579,897</u>
Total	<u>28,015,845</u>	<u>25,979,611</u>	<u>20,959,402</u>
Non-operating revenues			
Specific ownership taxes	106,709	99,925	96,902
General property taxes	1,038,026	1,022,199	1,009,409
Investment income	13,910	6,072	2,278
Capital grants	1,727,736	33,215	-
Donations	<u>1,114,864</u>	<u>579,698</u>	<u>146,658</u>
Total	<u>4,001,245</u>	<u>1,741,109</u>	<u>1,255,247</u>
Total revenues	<u>\$32,017,090</u>	<u>\$27,720,720</u>	<u>\$22,214,649</u>

The District's total revenue increased in 2016 by \$4,296,370 from 2015 primarily as a result of increased patient revenue and volume generated by new hospital services as well as growth in existing services. Also increase in grants and donations for capital projects.

## REVIEW OF EXPENSES

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating expenses	\$28,225,481	\$25,313,782	\$20,835,061
Non-operating expenses			
Debt issuance costs	353,620	-	-
Interest expense	<u>553,651</u>	<u>653,429</u>	<u>595,011</u>
Total expenses	<u>\$29,132,752</u>	<u>\$25,967,211</u>	<u>\$21,430,072</u>

The District's total expenses increased between 2015 and 2016 by \$3,165,541 primarily as a result of higher volumes and bond Issuance cost for capital projects.

Change in net position	\$2,884,338	\$1,753,509	\$ 784,577
Net position, beginning	<u>5,728,819</u>	<u>3,975,310</u>	<u>3,190,733</u>
Net position, ending	<u>\$8,613,157</u>	<u>\$5,728,819</u>	<u>\$3,975,310</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets, net of depreciation (see Note D to the financial statements) increased \$8,657,085 between 2015 and 2016.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Non-depreciable assets:			
Land	\$101,000	\$101,000	\$101,000
Clinic Expansion in progress	10,106,960	743,299	155,343
Depreciable assets:			
Buildings	8,628,364	8,944,761	9,261,159
Building improvements	602,218	443,177	499,851
Vehicles	118,179	119,290	201,755
Equipment	1,569,709	1,718,969	1,360,369
EHR	944,824	1,348,122	1,785,519
Furniture and fixtures	<u>64,819</u>	<u>60,370</u>	<u>61,918</u>
Total capital assets	<u>\$22,136,073</u>	<u>\$13,478,988</u>	<u>\$13,426,914</u>

## DEBT OUTSTANDING

Upper San Juan Health Service District was authorized to issue \$12,000,000 in bonds in 2006 and 2007. The District issued Limited Tax General Obligation Bonds Series 2006 in the amount of \$9,470,000 during 2006 and issued an additional \$2,530,000 in 2007. This \$12,000,000 debt resulted in repayment costs of \$23,773,646 over the life of the debt. This debt funded the construction of the new Critical Access Hospital. The District issued \$11,135,000 of Healthcare Service Enterprise Improvement and Refunding Revenue Bonds in 2016. Bond Series 2016A (Tax Exempt) and 2016B (Taxable) resulted in repayment cost of \$21,743,535 over the life of the debt.

This debt funded the construction of a new Clinic building, remodel of existing hospital departments and repayment of lease obligations. The District also issued various leases in 2015 and 2016, to fund equipment purchases. The District's remaining debt obligations, including the bond premium, was \$21,706,252 at December 31, 2016. See Note F to the financial statements. Note that the District entered into a long-term capital lease agreement totaling \$54,930 during 2016 for a new phone system.

### **ECONOMIC AND OTHER FACTORS**

The District's surgical services including GI procedures as well as ophthalmological, general surgery, plastic and orthopedic surgery declined in revenue by 12% from the prior year. Revenue from the emergency department increased by 13%, while radiology revenue increased by 10% over the prior year. The primary care clinic revenue exceeded prior year by 36%, and patient visits increased by 28%. Also CT and MRI departments were up 15% from 2015. The District's Net Accounts Receivable decreased by \$1,136,359 from prior year even with the large increase in revenue. The District was able to control expenses along with increased cash collections from AR, and payments from grants and donations of \$1,074,421 and 1,114,864 respectfully. The District's received \$810,840 from the 340B program, an increase of \$668,245.

### **FINANCIAL CONTACT**

The District's financial statements are designed to present interested parties (i.e., service users, taxpayers, and creditors) with a general overview of the District's finances and to demonstrate the District's accountability. If you have any questions concerning this report or need additional financial information, please contact the Office of Upper San Juan Health Service District, 95 S. Pagosa Blvd., Pagosa Springs, Colorado 81147.

Upper San Juan Health Service District

STATEMENTS OF NET POSITION

December 31,

	2016	2015
<b>ASSETS</b>		
Current assets		
Cash and investments	\$ 6,835,887	\$ 4,776,010
Cash and investments, restricted	1,528,431	151,480
Receivables		
Patient, net of allowances	4,039,634	5,175,993
Property taxes	1,079,964	1,072,038
Other receivables	778,140	32,373
Inventories	1,213,083	913,222
Prepaid assets	185,781	137,007
Total current assets	<u>15,660,920</u>	<u>12,258,123</u>
Capital assets, net of depreciation	22,136,073	13,478,988
Total assets	<u>37,796,993</u>	<u>25,737,111</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	4,544,503	3,744,341
Accrued expenses	985,367	840,154
Unearned revenue	430,830	373,985
Long-term debt due within one year	706,587	1,240,352
Total current liabilities	<u>6,667,287</u>	<u>6,198,832</u>
Unearned revenue	436,920	660,000
Long-term debt	20,999,665	12,077,422
Total liabilities	<u>28,103,872</u>	<u>18,936,254</u>
<b>DEFERRED INFLOWS</b>		
Unavailable property taxes	1,079,964	1,072,038
Total deferred inflows	<u>1,079,964</u>	<u>1,072,038</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,958,252	862,694
Unrestricted	6,654,905	4,866,125
Total net position	<u>\$ 8,613,157</u>	<u>\$ 5,728,819</u>

The accompanying notes are an integral part of these statements.

Upper San Juan Health Service District

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years ended December 31,

	2016	2015
Operating revenues		
Charges for services	\$ 25,028,794	\$ 23,399,160
Provider fee	1,427,441	1,522,232
Operating grants	48,243	291,390
Other	1,511,367	766,829
Total operating revenues	<u>28,015,845</u>	<u>25,979,611</u>
Operating expenses		
Personnel	18,155,002	15,506,630
Facilities	403,056	389,023
Depreciation	1,448,010	1,463,115
Insurance	248,247	191,606
Purchased services and other	4,622,634	4,470,453
Supplies	3,348,532	3,292,955
Total operating expenses	<u>28,225,481</u>	<u>25,313,782</u>
Net operating income (loss)	(209,636)	665,829
Non-operating revenues (expenses)		
General property taxes	1,038,026	1,022,199
Specific ownership taxes	106,709	99,925
Capital grants	1,727,736	33,215
Donations	1,114,864	579,698
Interest earned	13,910	6,072
Debt issuance costs	(353,620)	-
Interest expense	(553,651)	(653,429)
Total non-operating revenues (expenses)	<u>3,093,974</u>	<u>1,087,680</u>
Change in net position	2,884,338	1,753,509
Net position, beginning of year	<u>5,728,819</u>	<u>3,975,310</u>
Net position, end of year	<u>\$ 8,613,157</u>	<u>\$ 5,728,819</u>

The accompanying notes are an integral part of these statements.

STATEMENT OF CASH FLOWS

Health Service District

CASH FLOWS

December 31,

	2016	2015
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>		
<u>Provided by (Used in) Operating Activities</u>		
Operating income (loss)	\$ (209,636)	\$ 374,439
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,448,010	1,463,115
Loss on asset disposition	653	-
(Increase) decrease in accounts receivable	1,136,359	(522,336)
(Increase) decrease in other receivables	(31,063)	1,770,256
(Increase) decrease in prepaid expenses	(48,774)	(18,948)
(Increase) decrease in inventory	(299,861)	(105,872)
Increase (decrease) in accounts payable	(458,654)	1,807,684
Increase (decrease) in accrued liabilities	100,815	155,401
Increase (decrease) in unearned revenue	(166,235)	(331,999)
Total adjustments	<u>1,681,250</u>	<u>4,217,301</u>
	Net cash provided by (used in) operating activities	
	<u>\$ 1,471,614</u>	<u>\$ 4,591,740</u>
Non-cash activity from noncapital financing, capital and related financing, and investing		
Amortization of bond premium	\$ 16,743	\$ 13,346
Purchase of capital assets with capital leases	54,930	487,947
Purchase of capital assets with accounts payable	1,258,816	-
Purchase of capital assets with accounts interest	40,729	-
Donations in other receivables	17,520	4,374
Capital grants in other receivables	701,558	-

Upper San Juan Health Service District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. History and Activity

Upper San Juan Health Service District (the District), formerly known as the Upper San Juan Hospital District, was organized to operate, maintain and provide health services to the citizens of Archuleta, Hinsdale and Mineral Counties in the State of Colorado. The District is governed by a Board of Directors consisting of members that must be qualified electors of the District. Members are elected to staggered four-year terms of office.

2. Reporting Entity

The Governmental Accounting Standards Board (GASB) has specified the criteria to be used in defining a governmental entity for financial reporting purposes.

The reporting entity consists of (a) the primary government; i.e., the District, and (b) organizations for which the District is financially accountable. The District is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. Consideration is also given to other organizations that are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the District. Organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria discussed above, the financial statements of the reporting entity include only those of the District.

The District is a special-purpose government engaged only in a business-type activity. For this type of government, only enterprise fund financial statements are presented.

3. Basis of Presentation – Fund Accounting

The accounts of the District are organized and operated on a fund basis. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, net position, revenues and expenses. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to those applicable to businesses in the private sector.

GASB Statement No. 34 sets forth minimum criteria for the determination of major funds to be presented in the financial statements. Since the operations of the District are accounted for on a fund basis in a single enterprise fund, it is the only fund presented.

Upper San Juan Health Service District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Enterprise funds may be used to account for operations (a) that are financed and operated in a manner similar to business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

4. Basis of Accounting

Basis of accounting refers to when revenues or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Proprietary (enterprise) funds are presented on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows, liabilities, and deferred inflows associated with the operation of a fund are included on the statement of net position. Net position is categorized as net investment in capital assets and unrestricted. Fund operating statements present increases (e.g., revenues and contributions) and decreases (e.g., expenses) in net position. Proprietary funds are presented on an accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. The District uses the accrual basis of accounting.

Operating revenues and expenses for enterprise funds are those that result from providing services and producing and delivering goods and/or services within the scope of the enterprise operation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

5. Budgets and Budgetary Accounting

The annual budget is prepared and approved by the Board of Directors in accordance with the State of Colorado *Financial Management Manual* and in accordance with Colorado Revised Statutes. The budget is submitted to Archuleta, Hinsdale and Mineral County by December 15 and the District adopts an appropriation resolution for the next fiscal year by that date. The Board of Directors may amend the appropriation resolution at any time during the year if warranted by circumstances.

The District appropriates, and may not exceed appropriations, at a total fund level. Original appropriations for the year ended December 31, 2016 were \$29,043,989. The District adopted one supplemental appropriation for 2016 of \$15,387,934 for total final appropriations of \$44,431,923.

The District's annual appropriations are continuing appropriations, which allow the District to expend appropriated funds during the respective fiscal year or thereafter. Commitments, if any, related to unperformed contracts for goods or services outstanding at year-end are not recorded as restrictions of net position.

Upper San Juan Health Service District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

The budget basis of accounting differs from the generally accepted accounting principles (GAAP) basis in that outlays for the acquisition of capital assets and debt service principal payments are included as expenditures in the budget, depreciation is not budgeted and debt proceeds are budgeted as revenue.

6. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with maturity of three months or less to be cash equivalents.

7. Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered including estimated retroactive adjustments under reimbursement agreements, with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

8. Inventory

Inventory held by the District is recorded at cost using the first-in first-out method.

9. Capital Assets

Capital assets (property, plant and equipment) are recorded at cost. Cost includes the capitalization of materials and direct labor for additions made by District personnel. The District capitalizes assets with an expected useful life greater than two years and costs exceeding \$500.

Maintenance, repairs and renewals that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on disposition of property and equipment are included in income.

Depreciation is computed using the straight-line method over estimated useful lives, as follows:

	<u>Estimated Lives</u>
Buildings	7 to 39 years
Building improvements	5 to 39 years
Furniture and fixtures	5 to 20 years
Equipment	3 to 20 years
Vehicles	4 to 5 years

Upper San Juan Health Service District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

10. Compensated Absences

The District pays full-time employees with at least one month of continuous employment for accumulated annual leave upon termination. Annual leave cannot exceed up to 298 hours per employee. Accumulated unpaid annual leave, if material, is accrued when incurred. The District pays out accrued leave upon termination of employment.

11. Risk Management

The District purchases commercial insurance to manage its risk of loss for all manners of risk (i.e., liability, malpractice, workers compensation, etc.) There have been no reductions in insurance coverage or settlements exceeding insurance coverage for the past three years.

12. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets, deferred outflows, liabilities, deferred inflows, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

13. Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients, and others. The District provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the District bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are ordinarily due in full when billed. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the patient or third-party payer. The District grants credit without collateral to its patients, most of who are area residents and many of whom are insured under third-party payer agreements.

14. Bond Premiums

Bond premiums are being amortized on a straight-line basis over the life of the bond issue.

15. Net Position

Net position of the District is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is the noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the District. The District currently has no restricted net position. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Upper San Juan Health Service District  
 NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**16. Reclassifications**

For comparability, 2015 amounts may have been reclassified where appropriate to conform to the year 2016 financial presentation.

**NOTE B – CASH AND INVESTMENTS**

**Deposits**

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 102% of the aggregate uninsured deposits.

The following is a summary of insured deposits at December 31:

	2016	2015
Bank balance of deposits	\$ 5,465,685	\$ 4,778,787
Deposits covered by FDIC	250,000	250,000
Collateralized deposits	\$ 5,215,685	\$ 4,528,787
Cash carrying value is as follows:		
Cash on hand	\$ 2,650	\$ 2,700
Cash in banks	5,304,740	4,757,860
	\$ 5,307,390	\$ 4,760,560

**Investments**

Colorado statutes specify in which instruments the units of local government may invest, which include:

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

Upper San Juan Health Service District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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**NOTE B – CASH AND INVESTMENTS – CONTINUED**

At December 31, 2016, the District had invested \$2,082,057 in the Colorado Local Government Liquid Asset Trust, (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions of Colotrust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by Colotrust. Colotrust funds carry a Standard & Poor's AAAM rating. There is no custodial, interest rate or foreign currency risk exposure. Colotrust is a Level 2 investment in the fair value hierarchy established by GASB Statement No. 72 and is valued using significant observable inputs other than quoted market prices in active markets for identical securities. Of the amount invested in Colotrust, \$576,830 is restricted for capital purchases.

The District's remaining investments at December 31, 2016 and 2015 were in money market funds, with a carrying value of \$974,871 and \$166,930, respectively. Of the amounts, \$64,902 and \$151,480 in 2016 and 2015, respectively, are restricted for capital purchases. Also of the amounts, \$886,699 and \$0 in 2016 and 2015, respectively, are restricted for debt service.

**NOTE C – PROPERTY TAXES**

Property taxes for 2016, collectible in 2017, were certified by the Archuleta, Hinsdale and Mineral County Commissioners before December 31, 2016. Property taxes attached as an enforceable lien on January 1, 2017 and are due in total April 30, 2017 or in equal installments February 28, 2017 and June 15, 2017, at the option of the taxpayer. Property taxes for 2016, collectible in 2017, are shown as property taxes receivable and deferred inflows on the statement of net position in the amount of the assessed taxes. The County Treasurer remits taxes collected to the District by the 10th day of the month following collection.

Revenue recognized

Local property taxes levied for 2015, which were collected in 2016, are recognized as revenue in these financial statements. Of the total \$1,072,038 in property taxes levied, \$1,050,089 was collected, resulting in a collection percentage of 97.95%.

Upper San Juan Health Service District

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE D – CAPITAL ASSETS**

At December 31, 2016 capital asset transactions and balances include the following:

	Beginning Balance	Increases	Decreases	Ending Balance
Non-depreciable assets:				
Land	\$ 101,000	\$ –	\$ –	\$ 101,000
CIP	743,299	9,363,661	–	10,106,960
Total capital assets, not being depreciated	844,299	9,363,661	–	10,207,960
Depreciable assets:				
Buildings	12,352,009	–	–	12,352,009
Building improvements	758,438	229,876	–	988,314
Vehicles	824,655	67,467	–	892,122
Equipment	4,925,109	420,277	3,264	5,342,122
EHR	2,240,975	12,276	–	2,253,251
Furniture and fixtures	162,345	12,191	–	174,536
Total capital assets, being depreciated	21,263,531	742,087	3,264	22,002,354
Less accumulated depreciation for:				
Buildings	3,407,248	316,397	–	3,723,645
Building improvements	315,261	70,835	–	386,096
Vehicles	705,365	68,578	–	773,943
Equipment	3,254,197	520,827	2,611	3,772,413
EHR	844,796	463,631	–	1,308,427
Furniture and fixtures	101,975	7,742	–	109,717
Total accumulated depreciation	8,628,842	1,448,010	2,611	10,074,241
Total capital assets, being depreciated	12,634,689	(705,923)	(653)	11,928,113
Total capital assets, net	<u>\$ 13,478,988</u>	<u>\$ 8,657,738</u>	<u>\$ (653)</u>	<u>\$ 22,136,073</u>

Depreciation during 2016 and 2015 was \$1,448,010 and \$1,463,115, respectively.

**NOTE E – NET PATIENT SERVICE REVENUE & ACCOUNTS RECEIVABLE**

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

*Medicare.* Services rendered to Medicare program beneficiaries are paid based on a combination cost-reimbursement methodology and fee schedules.

*Medicaid.* Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services and defined capital costs related to Medicaid beneficiaries are paid based on a cost-reimbursement methodology.

Upper San Juan Health Service District  
 NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE E – NET PATIENT SERVICE REVENUE & ACCOUNTS RECEIVABLE – CONTINUED**

The Balanced Budget Act of 1997 was enacted in August 1997. The Act changes how the Medicare and Medicaid programs pay the District for certain services and overall reduces payments.

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

The following summary details gross charges and contractual allowances for the years.

	<u>2016</u>	<u>2015</u>
Gross revenue based on established rates	\$ 49,816,325	\$ 46,294,273
Less contractual adjustments and bad debts	(24,694,020)	(22,695,328)
Less charity care	(93,511)	(199,785)
	<u>\$ 25,028,794</u>	<u>\$ 23,399,160</u>
Patient accounts receivable at December 31, consist of:		
Patient services	\$ 8,241,247	\$ 11,075,621
Allowance for contractual adjustments and doubtful accounts	(4,201,613)	(5,899,628)
Net patient accounts receivable	<u>\$ 4,039,634</u>	<u>\$ 5,175,993</u>

**Charitable Care**

The District provides medical services regardless of an individual's ability to pay. A sliding fee scale allows discounts to individuals below 250% of the Federal poverty level. To determine an individual's ability to pay, patients are subject to an income and family size verification process through the use of an application and in accordance with its charity care policy.

The dollar value of this charity care is cost based and is determined by using a cost-to-charges ratio. For the years ended December 31, 2016 and 2015, the District provided \$49,600 and \$107,007 in charity care, respectively.

**NOTE F – LONG-TERM DEBT**

The District issued \$9,590,000 of Healthcare Services Enterprise Improvement and Refunding Revenue Bonds Series 2016A (Tax Exempt) and \$1,545,000 Refunding Revenue Bonds Series 2016B (Taxable) on May 10, 2016. The bonds bear interest rates varying from 2.75% to 6.125%. The bonds mature serially at varying amounts through June 1, 2046, with semi-annual interest payments on June 1 and December 1.

The District issued \$9,470,000 of Limited Tax General Obligation Bonds Series 2006. The bonds are additionally secured by net medical service revenue. The bonds were issued in October 2006 and bear interest rates varying from 4% to 5%. An additional \$2,530,000 in bonds was issued in January 2007 for a total issue of \$12,000,000. The additional bonds bear interest at rates varying from 3.6% to 4.0%. The bonds mature serially at varying amounts through June 1, 2037, with semi-annual interest payments on June 1 and December 1.

Upper San Juan Health Service District  
 NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE F – LONG-TERM DEBT – CONTINUED**

2016 Bonds

	Bonds Payable	
	Principal	Interest
2017	\$ 240,000	\$ 538,319
2018	350,000	528,731
2019	305,000	518,088
2020	320,000	507,131
2021	330,000	494,944
2022-2026	1,275,000	2,345,925
2027-2031	1,375,000	2,122,037
2032-2036	1,700,000	1,795,725
2037-2041	2,225,000	1,272,994
2042-2046	3,015,000	484,641
	<u>\$ 11,135,000</u>	<u>\$ 10,608,535</u>

2006/2007 Bonds

	Bonds Payable	
	Principal	Interest
2017	\$ 280,000	\$ 464,234
2018	290,000	452,904
2019	305,000	440,966
2020	320,000	426,828
2021	335,000	410,453
2022-2026	1,950,000	1,776,638
2027-2031	2,505,000	1,230,796
2032-2036	3,185,000	546,184
2037	730,000	15,969
	<u>\$ 9,900,000</u>	<u>\$ 5,764,972</u>

At December 31, 2016, the District was in compliance with all bond covenants.

Long-term leases

During 2016 the District entered into long-term capital leases for a new phone system. Payments for the new lease are due monthly with no interest through August 2019. Monthly payments are \$1,526. The gross value of the capital asset associated with the lease agreement is \$54,930.

Scheduled principal and interest repayment on the lease obligation is as follows:

	Leases Payable	
	Principal	Interest
2017	\$ 18,312	\$ -
2018	18,312	-
2019	11,809	-
	<u>\$ 48,433</u>	<u>\$ -</u>

Upper San Juan Health Service District  
 NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE F – LONG-TERM DEBT – CONTINUED**

During 2014 the District entered into long-term capital leases for new equipment. Payments for the new leases are due monthly through March 2018 and August 2018, respectively. Monthly payments are \$12,849 and \$62, including interest, respectively. The gross values of capital assets associated with these lease agreements is \$500,500 and \$3,906, respectively.

Scheduled principal and interest repayment on these lease obligations are as follows:

	Leases Payable	
	Principal	Interest
2017	\$ 149,831	\$ 5,095
2018	50,972	272
	\$ 200,803	\$ 5,367

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

	December 31, 2015	Additions	Reductions	December 31, 2016	Due Within One Year
Bonds payable	\$ 10,170,000	\$ 11,135,000	\$ 270,000	\$ 21,035,000	\$ 520,000
Bond premium	285,825	152,934	16,743	422,016	18,444
Line of credit	550,000	-	550,000	-	-
Leases payable	2,311,949	54,930	2,117,643	249,236	168,143
	\$ 13,317,774	\$ 11,342,864	\$ 2,954,386	\$ 21,706,252	\$ 706,587

**NOTE G – TAX, SPENDING AND DEBT LIMITATIONS**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment as they have interpreted it. During 2004, the District's voters approved an increase in the mill levy and the ability of the District to accept revenues beyond limitations set in the amendment or by the Legislature. During 2016, the District's voters approved continuation of accepting revenues beyond the limitations as noted above.

**NOTE H – OPERATING LEASE COMMITMENTS**

The District often conducts a portion of its operations using leased property and equipment, which are classified as operating leases. The District entered into an operating lease for use of a building with a related party (a member of the Board). Lease terms for January 1, 2016 through April 30, 2016 are \$6,120 per month and May 1, 2016 through June 30, 2019 are \$6,300 per month, with additional rent of \$2,099 per month also for the period of May 1, 2016 through June 30, 2019. At the District's option it can extend the agreement for the period July 1, 2019 through June 30, 2021 at \$6,500 per month. The rental payments under the lease for 2016 were \$91,672. The District did not owe the related party any amounts at December 31, 2016.

Upper San Juan Health Service District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

**NOTE H – OPERATING LEASE COMMITMENTS – CONTINUED**

Other operating leases were entered into with starting dates in 2009 through 2016 and payments from \$205 to \$7,476. The leases terminate anywhere from March 2017 through February 2022. Rent payments on the various operating leases for 2016 totaled \$282,729 (including the rent payment to the related party noted above). The minimum lease payments due in the future at December 31, 2016 are as follows:

2017	\$	269,087
2018		217,020
2019		143,786
2020		89,712
2021		89,712
2022		<u>14,952</u>
Total	\$	<u>824,269</u>

**NOTE I – DEFINED CONTRIBUTION PLAN**

The District provides retirement benefits for all of its full-time employees through a defined contribution plan administered by the Colorado County Officials and Employees Retirement Association (CCOERA). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Under the defined contribution retirement plan, the District is required to contribute 6% of employee compensation to the plan.

Employees are eligible to participate in the plan upon the first day of the payroll period after the employee's date of hire. The plan provides retirement benefits based upon the employee's vested account. A participant becomes 100% vested upon completion of five years of covered service. Amounts forfeited by employees who leave employment before they become fully vested are applied to reduce future employer contributions. Under the plan, employees direct the investment of both the employee and employer contributions among several investment options available through an outside plan administrator. For the year ended December 31, 2016, the employee and employer contributions to the plan were \$872,603 and \$872,603, respectively. For the year ended December 31, 2015, the employee and employer contributions to the plan were \$762,343 and \$762,349, respectively.

**NOTE J – DEFERRED COMPENSATION PLAN**

District employees may defer a portion of their compensation under a District sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until it is distributed to them; distributions may be made only at termination, retirement, or death. The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of Plan participants and their beneficiaries. Since the assets held under these plans are not the District's property and are not subject to District control, they have been excluded from these financial statements.

Upper San Juan Health Service District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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**NOTE K – COMMITMENTS**

The District entered into a contract for an expansion construction project during 2016. The uncompleted construction contract was \$1,613,496 at December 31, 2016.

SUPPLEMENTARY INFORMATION

Upper San Juan Health Service District

SCHEDULE OF REVENUES AND EXPENSES  
BUDGET AND ACTUAL

Year ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Patient services and subscriptions	\$50,399,600	\$50,399,600	\$49,816,325	\$ (583,275)
Adjustments	(24,552,400)	(24,552,400)	(24,787,531)	(235,131)
Provider fee	1,296,000	1,296,000	1,427,441	131,441
Other operating revenue	648,392	648,392	1,511,367	862,975
Property taxes	1,149,000	1,149,000	1,144,735	(4,265)
Donations	830,000	830,000	1,114,864	284,864
Interest	4,708	4,708	13,910	9,202
Debt proceeds	-	11,287,934	11,287,934	-
Grants	1,064,200	1,064,200	1,775,979	711,779
<b>Total revenues</b>	<b>30,839,500</b>	<b>42,127,434</b>	<b>43,305,024</b>	<b>1,177,590</b>
<b>Expenses</b>				
Salaries and wages	14,427,400	14,427,400	15,404,182	(976,782)
Payroll taxes and benefits	3,088,200	3,088,200	2,750,820	337,380
Facilities	408,600	408,600	403,056	5,544
Insurance	294,000	294,000	248,247	45,753
Debt service				
Principal	937,089	1,284,677	2,937,643	(1,652,966)
Interest	565,154	565,154	553,651	11,503
Debt issuance costs	-	353,620	353,620	-
Purchased services and other	4,368,900	4,368,900	4,622,634	(253,734)
Supplies	2,809,500	2,809,500	3,348,532	(539,032)
Depreciation	1,545,146	1,545,146	1,448,010	97,136
Capital outlay	600,000	10,306,935	10,105,748	201,187
Contingency	-	4,979,791	-	4,979,791
<b>Total expenses</b>	<b>29,043,989</b>	<b>44,431,923</b>	<b>42,176,143</b>	<b>2,255,780</b>
<b>Change in net position budgetary basis</b>	<b>\$ 1,795,511</b>	<b>\$ (2,304,489)</b>	<b>1,128,881</b>	<b>\$ 3,433,370</b>
<b>Reconciliation to GAAP basis</b>				
Debt proceeds			(11,287,934)	
Capitalized capital outlay			10,105,748	
Debt service principal payments			2,937,643	
Change in net position GAAP basis			2,884,338	
<b>Total net position - beginning</b>			<b>5,728,819</b>	
<b>Total net position - ending</b>			<b>\$ 8,613,157</b>	