

**HAXTUN HOSPITAL DISTRICT**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

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Office of the State Auditor

August 21 , 2018

**HAXTUN HOSPITAL DISTRICT  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Haxtun Hospital District  
Haxtun, Colorado

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

We have audited the accompanying financial statements of Haxtun Hospital District (the District), which comprise the statement of net position as of December 31, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Haxtun Hospital District as of December 31, 2017, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

The 2016 financial statements of Haxtun Hospital District were audited by other auditors whose report dated May 25, 2017, expressed an unmodified opinion on those statements.

**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 8 and the budgeted and actual revenues and expenses on page 26 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Denver, Colorado  
June 20, 2018

**HAXTUN HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**INTRODUCTION**

This management's discussion and analysis of Haxtun Hospital District (the District) provides an overview of the District's financial activities for the years ended December 31, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the District, which begin on page 9.

**USING THIS ANNUAL REPORT**

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

**FINANCIAL HIGHLIGHTS**

- The District's current cash and cash equivalents decreased in 2017 by \$799,398, or 39%, compared to an increase of \$631,522, or 45%, in 2016.
- Patient accounts receivable decreased in 2017 by \$185,110, or 15%, compared to an increase of \$471,509, or 64%, in 2016.
- Current liabilities decreased in 2017 by \$570,211, or 36%, compared to an increase of \$716,835, or 84%, in 2016.
- Net position decreased in 2017 by \$570,763, or 17%, compared to an increase \$347,868, or 11%, in 2016.
- Net operating revenues increased by \$14,278, or 0.2%, in 2017, compared to an increase of \$244,511, or 3%, in 2016.
- Operating expenses increased by \$891,388, or 10%, in 2017, compared to an increase of \$798,324, or 10%, in 2016.
- Nonoperating revenues (expenses) decreased by \$41,521, or 11%, in 2017, compared to an increase of \$59,413, or 19%, in 2016.

**THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

One of the most important questions asked about any organization's finances is, "Is the organization as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses, and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**HAXTUN HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)**

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

**THE STATEMENT OF CASH FLOWS**

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from operations, noncapital financing activities, capital and related financing activities, and investing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

**THE DISTRICT'S NET POSITION**

The District's net position is the difference between its assets and liabilities reported in the statements of net position. The District's net position decreased \$570,763 (16.9%) in 2017 and increased \$347,868 (11.5%) in 2016 as shown in Table 1.

**TABLE 1: ASSETS, LIABILITIES, DEFERRED INFLOWS, AND NET POSITION**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,225,635	\$ 2,025,033	\$ 1,393,511
Patient Accounts Receivable, Net	1,024,501	1,209,611	738,102
Other Current Assets	838,189	685,818	530,217
Capital Assets, Net	1,756,201	1,806,207	1,799,559
Noncurrent Cash and Cash Equivalents	49,320	314,975	310,947
Total Assets	<u>\$ 4,893,846</u>	<u>\$ 6,041,644</u>	<u>\$ 4,772,336</u>
<b>LIABILITIES</b>			
Current Liabilities	\$ 1,001,586	\$ 1,571,797	\$ 854,962
Long-Term Debt	772,075	758,495	590,000
Total Liabilities	<u>1,773,661</u>	<u>2,330,292</u>	<u>1,444,962</u>
Deferred Inflows from Property Taxes	304,596	325,000	288,890
<b>NET POSITION</b>			
Net Investment in Capital Assets	804,426	908,669	1,139,559
Restricted Expendable	49,320	49,221	49,137
Unrestricted	1,961,843	2,428,462	1,849,788
Total Net Position	<u>2,815,589</u>	<u>3,386,352</u>	<u>3,038,484</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 4,893,846</u>	<u>\$ 6,041,644</u>	<u>\$ 4,772,336</u>

**HAXTUN HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**THE DISTRICT'S ASSETS AND LIABILITIES**

The most noteworthy changes in 2017 to the District's statement of net position are the decreases in current and noncurrent cash and cash equivalents, patient accounts receivable, and current liabilities. The statement of net position shows that current cash and cash equivalents decreased \$799,398 between 2017 and 2016. The decrease in cash and cash equivalents is primary a result of the decrease in current liabilities along with the increase in operating loss in 2017. The decrease in net patient accounts receivable was \$185,110 between 2016 and 2017. This decrease was primarily driven by the write-off of \$411,902 in patient accounts receivable from the previous billing system as it was determined to be uncollectible. This write-off was offset by an increase in patient accounts receivable in the new patient billing system. Current liabilities decreased \$570,211 between 2016 and 2017 as a result of the District paying the settlement due back to Medicare on the 2016 cost report, which was included in the third-party payor settlements.

The most noteworthy changes in 2016 to the District's statement of net position are the increases in current cash and cash equivalents, patient accounts receivable, current liabilities and long-term debt. The statement of net position shows that current cash and cash equivalents increased \$631,522 between 2015 and 2016 as a result of an increase in current liabilities. The increase in net patient accounts receivable was \$471,509 between 2015 and 2016. This increase was primarily driven by an increase in volumes and billing changes within the billing department. Current liabilities increased \$716,835 between 2015 and 2016 as a result of the District's 2016 Medicare cost report estimate, which was included in third-party payor settlements. Long-term debt increased \$168,495 between 2015 and 2016 as a result of the District entering into capital lease obligations for equipment purchases.

**OPERATING RESULTS AND CHANGES IN DISTRICT'S NET POSITION**

In 2017, the District's net position decreased by \$570,763, compared to an increase of \$347,868 in 2016. The percentage change in the District's net position was a decrease of 16.9% in 2017, compared to an increase of 11.5% in 2016. See Table 2 for the operating results and changes in net position.

**HAXTUN HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**TABLE 2: OPERATING RESULTS AND CHANGES IN NET POSITION**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUES</b>			
Net Patient Service Revenues	\$ 8,429,580	\$ 8,377,141	\$ 8,083,975
Other Operating Revenues	183,760	221,921	270,576
Total Operating Revenues	<u>8,613,340</u>	<u>8,599,062</u>	<u>8,354,551</u>
<b>OPERATING EXPENSES</b>			
Salaries, Wages, and Employee Benefits	5,548,251	5,181,424	4,748,070
Purchased Services and Professional Fees	1,750,161	1,359,907	1,528,282
Supplies and Other	1,751,992	1,583,435	1,187,361
Depreciation	463,618	497,868	360,597
Total Operating Expenses	<u>9,514,022</u>	<u>8,622,634</u>	<u>7,824,310</u>
<b>OPERATING GAIN (LOSS)</b>	(900,682)	(23,572)	530,241
<b>NONOPERATING REVENUES AND EXPENSES</b>			
Property Taxes	315,620	320,228	323,245
Interest Income	6,099	5,616	5,025
Interest Expense	(31,243)	(33,461)	(22,997)
Other Nonoperating Revenues and Expenses, Net	39,443	79,057	6,754
Net Nonoperating Revenues	<u>329,919</u>	<u>371,440</u>	<u>312,027</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES</b>	(570,763)	347,868	842,268
Capital Grants	<u>-</u>	<u>-</u>	<u>81,262</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>\$ (570,763)</u>	<u>\$ 347,868</u>	<u>\$ 923,530</u>

**OPERATING GAIN (LOSS)**

The first component of the overall change in the District's net position is its operating gain (loss), which is the difference between net patient service revenue and the expenses incurred to perform those services. In 2017, the District reported an operating loss of \$900,682, which was a decline from the operating loss reported in 2016 of \$23,572. The District's management and staff have worked together to ensure quality patient care while keeping rates to patients competitive with other hospitals.

Net patient service revenue of \$8.43 million in 2017 represented a 0.6% increase over 2016. The District experienced an increase in volumes throughout 2017, which contributed to the increase in net patient service revenues. This increase in volumes was offset by a decrease in the supplemental payments from the state of Colorado provider fee program. Salaries, wages, and employee benefits increased in 2017 by approximately \$367,000 or 7.1%, as a result of filling positions within the District. Purchased services and professional fees increased by approximately \$390,000, or 28.7%, primarily resulting from an increase in billing collection fees and costs related to the potential clinic building project, which has been put on hold.

**HAXTUN HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**OPERATING GAIN (LOSS) (CONTINUED)**

The provision for bad debt in 2017 increased from 2016 by 208%. It is important to note that the allowance for self-pay accounts receivable, inclusive of bad debt reserve, was approximately \$192,000 and \$175,000 for 2017 and 2016, respectively.

Net patient service revenue of \$8.38 million in 2016 represented a 3.6% increase over 2015. The District experienced an increase in volumes throughout 2016 along with increased supplemental payments from the state of Colorado provider fee program, which contributed to the increase in net patient service revenues. Salaries, wages, and employee benefits increased in 2016 by approximately \$433,000 or 9.1%, as a result of the District filling positions during 2016. As a result, purchased services and professional services decreased approximately \$168,000 or 11% due to decreased contract labor to fill the positions that had turned over in 2015. Supplies and other expenses increased in 2016 by approximately \$396,000 or 33.4% as a result of increased patient volumes, which resulted in increased supplies and other expenses.

The provision for bad debt in 2016 decreased from 2015 by 40%. It is important to note that the allowance for self-pay accounts receivable, inclusive of bad debt reserve, was approximately \$175,000 and \$157,000 for 2016 and 2015, respectively.

**NONOPERATING REVENUES AND EXPENSES**

Nonoperating revenues and expenses consist primarily of property tax revenue, interest expense, and grants and contributions. Property tax revenues from the county decreased 1.4% and 0.9% in 2017 and 2016, respectively. Interest expense decreased 6.6% and 45.5% in 2017 and 2016, respectively. Grant and contribution revenues decreased between 2017 and 2016.

**THE DISTRICT'S CASH FLOWS**

The change in the District's cash flows are consistent with changes in operating income and losses and nonoperating revenues and expenses, as discussed earlier.

**CAPITAL ASSETS, NET**

The District's capital assets, net of accumulated depreciation, decreased from \$1,806,207 in 2016, to \$1,756,201 in 2017, as detailed in Note 6 to the financial statements. The District invested \$449,237 in capital assets in 2017, which was offset by continued depreciation on capital assets that have been placed in service. Of the \$449,237 of capital asset additions in 2017, \$200,000 of the additions were financed through the issuance of a promissory note.

**LONG-TERM DEBT**

At December 31, 2017 and 2016, the District had long-term debt (excluding current portion) of \$772,075 and \$758,495, respectively, in general obligation bonds, a promissory note, and capital lease obligations. The increase from 2016 is due to radiology equipment being purchased in 2017 with the issuance of a promissory note in the amount of \$200,000, as detailed in Note 8 to the financial statements.

**HAXTUN HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

**OTHER ECONOMIC FACTORS**

The District operates in rural Colorado in Phillips County, which is predominantly made up of farming communities. Additional economic factors impacting the District include population shifts, increasing numbers of uninsured or underinsured patients, and increasing costs of recruiting, hiring, and retaining health care professionals.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money they receive. Questions about this report and requests for additional financial information should be directed to the District's executive office by telephoning 970-774-6123.

**HAXTUN HOSPITAL DISTRICT  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,225,635	\$ 2,025,033
Receivables:		
Patient Accounts Receivable, Net	1,024,501	1,209,611
Property Taxes	302,293	325,000
Estimated Amounts Due from Third-Party Payors	114,000	-
Other	44,548	47,454
Supplies	225,242	178,437
Prepaid Expenses and Other	152,106	134,927
Total Current Assets	3,088,325	3,920,462
<b>NONCURRENT CASH AND CASH EQUIVALENTS</b>		
Restricted by Contributors	49,320	49,221
Certificate of Deposit	-	265,754
Total Noncurrent Cash and Cash Equivalents	49,320	314,975
<b>CAPITAL ASSETS, NET</b>		
	1,756,201	1,806,207
Total Assets	\$ 4,893,846	\$ 6,041,644
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 179,700	\$ 139,043
Accounts Payable	335,809	190,734
Accrued Expenses:		
Salaries, Wages, and Benefits	420,749	353,843
Interest	1,374	1,559
Estimated Amounts Due to Third-Party Payors	-	707,000
Electronic Health Record Deferred Revenues	63,954	179,618
Total Current Liabilities	1,001,586	1,571,797
<b>LONG-TERM DEBT, NET OF CURRENT MATURITIES</b>		
	772,075	758,495
Total Liabilities	1,773,661	2,330,292
<b>DEFERRED INFLOWS FROM PROPERTY TAXES</b>		
	304,596	325,000
<b>NET POSITION</b>		
Net Investment in Capital Assets	804,426	908,669
Restricted - Nonexpendable Endowment	49,320	49,221
Unrestricted	1,961,843	2,428,462
Total Net Position	2,815,589	3,386,352
Total Liabilities, Deferred Inflows, and Net Position	\$ 4,893,846	\$ 6,041,644

See accompanying Notes to Financial Statements.

**HAXTUN HOSPITAL DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue (Net of Provision for Bad Debts of Approximately \$217,000 in 2017 and \$88,000 in 2016)	\$ 8,429,580	\$ 8,377,141
Other Operating Revenue	183,760	221,921
Total Operating Revenues	8,613,340	8,599,062
<b>OPERATING EXPENSES</b>		
Salaries and Wages	4,692,599	4,462,137
Employee Benefits	855,652	719,287
Supplies	1,201,861	1,147,662
Professional Fees and Purchased Services	1,750,161	1,359,907
Depreciation	463,618	497,868
Insurance	116,516	144,709
Provider Tax	176,970	70,806
Other	256,645	220,258
Total Operating Expenses	9,514,022	8,622,634
<b>OPERATING LOSS</b>	(900,682)	(23,572)
<b>NONOPERATING REVENUES AND EXPENSES</b>		
Property Taxes	315,620	320,228
Grants and Contributions	36,052	41,251
Interest Income	6,099	5,616
Interest Expense	(31,243)	(33,461)
Other Nonoperating Revenues	3,391	37,806
Total Nonoperating Revenues and Expenses	329,919	371,440
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES</b>	(570,763)	347,868
Net Position - Beginning of Year	3,386,352	3,038,484
<b>NET POSITION - END OF YEAR</b>	\$ 2,815,589	\$ 3,386,352

See accompanying Notes to Financial Statements.

**HAXTUN HOSPITAL DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from and on Behalf of Patients	\$ 7,793,690	\$ 8,533,632
Receipts from Other Operating Activities	68,096	123,421
Payments to and on Behalf of Employees	(5,481,345)	(5,089,454)
Payments to Suppliers, Contractors, and Others	(3,418,156)	(3,039,744)
Net Cash Provided (Used) by Operating Activities	(1,037,715)	527,855
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property Taxes Supporting Operations	219,318	229,696
Noncapital Grants and Contributions	36,052	41,251
Other Nonoperating Revenue	3,391	37,806
Net Cash Provided by Noncapital Financing Activities	258,761	308,753
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal Paid on Long-Term Debt	(145,763)	(126,402)
Interest Paid on Long-Term Debt	(31,428)	(33,646)
Proceeds from Property Taxes for Debt Service	98,605	93,950
Purchase of Capital Assets	(213,612)	(140,576)
Net Cash Used by Capital and Related Financing Activities	(292,198)	(206,674)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	6,099	5,616
(Increase) Decrease in Noncurrent Cash and Cash Equivalents	265,655	(4,028)
Net Cash Provided by Investing Activities	271,754	1,588
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(799,398)	631,522
Cash and Cash Equivalents - Beginning of Year	2,025,033	1,393,511
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,225,635	\$ 2,025,033

See accompanying Notes to Financial Statements.

**HAXTUN HOSPITAL DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (900,682)	\$ (23,572)
Depreciation	463,618	497,868
Provision for Bad Debts	216,779	87,920
Changes in Operating Assets and Liabilities:		
Patient Accounts Receivable, Net	(31,669)	(559,429)
Estimated Amounts Due to (from) Third-Party Payors	(821,000)	628,000
Electronic Health Record Deferred Revenues	(115,664)	(81,225)
Other Receivables	2,906	(17,275)
Supplies	(46,805)	(7,680)
Prepays Expenses and Other	(17,179)	(97,954)
Accounts Payable	145,075	9,232
Accrued Salaries, Wages, and Benefits	66,906	91,970
Net Cash Provided (Used) by Operating Activities	\$ (1,037,715)	\$ 527,855
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Equipment Financed Through Capital Lease Arrangement	\$ -	\$ 363,940
Equipment Acquired Through Promissory Note Agreement	\$ 200,000	\$ -

See accompanying Notes to Financial Statements.

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

Haxtun Hospital District (the District) owns and operates a 25-bed licensed acute care hospital in Haxtun, Colorado. The District considers the southwestern portion of Phillips County, Colorado to be its primary service market and provides acute care services to patients in that area. The services provided include acute hospital care, emergency room, and the related ancillary procedures (lab, x-ray, therapy, etc.) associated with those services. The District is a quasi-municipal corporation governed by an elected five-member board.

Haxtun Hospital District operates under the laws of the state of Colorado for Colorado special districts. As organized, the District is exempt from payment of federal income tax. All District assets, liabilities, and financial transactions are included in these financial statements.

**Reporting Entity**

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature or significance of their relationship with the District are such that the exclusion would cause the District's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The District does not have a component unit, which meets the GASB criteria.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and 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. The District's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus.

**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.

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, cash and cash equivalents are considered to be highly liquid investments with an original maturity of 90 days or less.

**Patient Accounts Receivable, Net**

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, 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 payors directly and bill the patient when the patient's liability is determined. Patients are not required to provide collateral for services rendered. 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 payor. In addition, an allowance is estimated for other accounts based on the historical experience of the District. At December 31, 2017 and 2016, the allowance for uncollectible accounts was approximately \$192,000 and \$175,000, respectively.

**Supplies**

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

**Noncurrent Cash and Cash Equivalents**

Noncurrent cash and cash equivalents consists of cash and cash equivalents restricted by contributors for an endowment. In the prior year there was a certificate of deposit held with a maturity greater than one year. The certificate of deposit was cashed in during fiscal year 2017.

**Capital Assets, Net**

Capital assets in excess of \$5,000 are recorded at cost at the date of acquisition, or fair value at the date of donation, if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the District:

Buildings	20-40 Years
Major Movable and Fixed Equipment	3-20 Years

**Impairment of Long-Lived Assets**

Management periodically reviews the carrying value of long-lived assets for potential impairment by comparing the carrying value of these assets to the estimated undiscounted future cash flows expected to result from the use and eventual disposition of these assets. Should the sum of the expected future net cash flows be less than carrying value, an impairment loss would be recognized. There was no impairment identified or recorded in fiscal years 2017 or 2016.

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Net Position**

The Net Position of the District is classified in three components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by any outstanding balances of borrowings used to finance the purchase or construction of those assets. *Restricted nonexpendable net position* is noncapital net position that must be held as an endowment as specified by contributors external to the District. Restricted net assets are reduced by any liabilities payable from restricted assets. *Unrestricted net position* is the remaining net assets that do not meet the definition of net investment in capital assets or restricted.

**Property Taxes**

The District received approximately 4% of its financial support from property taxes in 2017 and 2016. These funds were used to support operations of the District and to service long-term debt. The District levies property taxes on an annual basis through a mill levy on assessed property valuations. The funds were used as follows:

	2017	2016
Levied to Support Operations	\$ 217,015	\$ 226,278
Levied for Debt Service	98,605	93,950
Total Property Tax Income	\$ 315,620	\$ 320,228

Property tax is recognized on the lien date, which is January 1 of the tax year in Colorado. The property tax receivable represents taxes certified by the board of directors to be collected in the next fiscal year. However, by statute, the tax asking becomes effective on the first date of the following year. Although the property tax receivable has been recorded, the related revenue is considered a deferred inflow of resources – unavailable revenue and will not be recognized as revenue until the year for which it is levied.

Lien date – January 1

Levy date – January 1, succeeding year

Due dates – February 28 and June 15, succeeding year

**Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the services are rendered and such estimated amounts are revised in future periods as adjustments become known.

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Charity Care**

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the District's charity care policy were approximately \$23,000 and \$-0- for 2017 and 2016, respectively.

**Grants and Contributions**

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

**Operating Revenues and Expenses**

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

**Provider Fee Program**

In 2012, the state of Colorado adopted a provider fee program, approved by the Centers for Medicare and Medicaid Services (CMS), under which all hospitals in the state were assessed a fee based on bed size and payor mix. The state of Colorado uses the fees to supplement state budget funds for the Medicaid program, which brings matching federal monies into the program, enabling the state of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible.

**Advertising Costs**

The District expenses advertising costs as incurred.

**Deferred Inflows of Resources**

Deferred inflow of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources reported in the financial statements are unavailable property taxes. Property taxes will be recognized as revenue in the year they are levied.

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Electronic Health Record Incentive Program**

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible health care organizations that demonstrate meaningful use of certified EHR technology. The Medicare incentive payments for Critical Access Hospitals are made based on actual costs incurred to attain meaningful use and are contingent on the District continuing to meet the escalating meaningful use criteria. For the first payment year, the District must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent year, the District must demonstrate meaningful use for the entire year. The Medicare incentive payments to Critical Access Hospitals are made in one lump sum. The District demonstrated meaningful use for a continuous 90-day period during the year ended December 31, 2012. The District estimated its incentive payment from Medicare to be \$846,248 as of December 31, 2012, based on actual costs incurred to obtain meaningful use. The incentive payment was received by the District in 2013. Since the District is subject to cost-based reimbursement from Medicare it elected to defer approximately \$775,000 of meaningful use revenue to offset the future decreased reimbursement from Medicare related to the capital acquisition costs. During the year ended December 31, 2016, the District received an additional \$101,939 as a lump sum incentive payment related to EHR. The deferred revenue will be recognized over the life of the EHR fixed assets that were capitalized. In 2017 and 2016, the District recognized approximately \$116,000 and \$183,000, respectively, of deferred revenue, which is included in other operating revenue on the statements of revenues, expenses, and changes in net position.

**Fair Value Measurements**

To the extent available, the District's investments are recorded at fair value. GASB Statement No. 72 – *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take in to account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources.

In contrast, unobservable inputs reflect an entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

**Fair Value Measurements (Continued)**

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the District has the ability to access.

*Level 2* – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

*Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

**NOTE 2 TAX, SPENDING AND DEBT LIMITATIONS**

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

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

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

Fiscal year spending and revenue limits are determined based on the prior year's spending, adjusted for inflation and local growth. Revenue in excess of the limit must be refunded unless the voters approve retention of such revenue.

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 3 NET PATIENT SERVICE REVENUE**

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

Medicare

The District is licensed as a Critical Access Hospital. As a Critical Access Hospital, inpatient acute care services rendered to Medicare program beneficiaries are paid on a cost-reimbursed basis and inpatient nonacute services and outpatient services are reimbursed on a cost basis. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2015.

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. Inpatient nonacute services, certain outpatient services, and defined capital costs related to Medicaid beneficiaries were paid based on a cost-reimbursement methodology through October 30, 2016. The District was reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. On October 31, 2016, the Medicaid program began paying for outpatient hospital services by using an enhanced ambulatory patient grouping (EAPG), which is a prospective payment methodology. The District's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through December 31, 2015.

Other

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

Uninsured

The District provides healthcare services to patients who have not purchased commercial healthcare insurance coverage and do not qualify as beneficiaries of the Medicare and Medicaid programs. Based upon financial information obtained, some of these patients qualify for discounts from charges under the District's charity care policy.

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)**

The following is a reconciliation of gross patient service revenue to net patient service revenue for the years ending December 31:

	<u>2017</u>	<u>2016</u>
Gross Patient Service Revenue	\$ 9,752,304	\$ 8,121,849
Discounts and Adjustments:		
Contractual Adjustments	1,105,945	(343,135)
Provision for Bad Debts	216,779	87,843
Total Discounts and Adjustments	<u>1,322,724</u>	<u>(255,292)</u>
Net Patient Service Revenue	<u>\$ 8,429,580</u>	<u>\$ 8,377,141</u>

Revenue from Medicare and Medicaid programs accounted for approximately 59% and 13%, respectively, of the District's patient revenue for the year ended December 31, 2017 and 51% and 25%, respectively, of the District's patient revenue for the year ended December 31, 2016. 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 revenues for the years ending December 31, 2017 and 2016 increased approximately \$191,000 and \$311,000, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

**NOTE 4 PATIENT ACCOUNTS RECEIVABLE, NET**

The District grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Medicare	34 %	47 %
Medicaid	10	11
Blue Cross	7	6
Other Third-Party Insurance	38	18
Patients	11	18
Total	<u>100 %</u>	<u>100 %</u>

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 5 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 PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

The State Regulatory Commissioners for bank and financial services are required by statute to monitor the naming of eligible depositories and reporting of uninsured deposits and assets maintained in the collateral pools.

At December 31, 2017 and 2016, the District's cash deposits had a bank balance of \$1,364,971 and \$2,340,008, respectively. These cash deposits included \$-0- and \$265,754 of certificates of deposit as of December 31, 2017 and 2016, respectively.

**NOTE 6 CAPITAL ASSETS, NET**

Capital asset activity for the years ended December 31, 2017 and 2016 was as follows:

	2017				Ending Balance
	Beginning Balance	Additions	Disposals and Retirements	Transfers	
Land	\$ 8,290	\$ -	\$ -	\$ -	\$ 8,290
Buildings and Leasehold Improvements	3,251,322	-	-	25,900	3,277,222
Equipment	3,518,145	430,452	(472,623)	-	3,475,974
Software	-	18,785	-	-	18,785
Construction in Progress	60,014	-	(34,114)	(25,900)	-
Subtotal	<u>6,837,771</u>	<u>449,237</u>	<u>(506,737)</u>	<u>-</u>	<u>6,780,271</u>
Less: Accumulated Depreciation:					
Buildings and Leasehold Improvements	2,434,026	103,719	-	-	2,537,745
Equipment	2,597,538	356,768	(471,112)	-	2,483,194
Software	-	3,131	-	-	3,131
Subtotal	<u>5,031,564</u>	<u>463,618</u>	<u>(471,112)</u>	<u>-</u>	<u>5,024,070</u>
Capital Assets, Net	<u>\$ 1,806,207</u>	<u>\$ (14,381)</u>	<u>\$ (35,625)</u>	<u>\$ -</u>	<u>\$ 1,756,201</u>

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 6 CAPITAL ASSETS, NET (CONTINUED)**

	2016				Ending Balance
	Beginning Balance	Additions	Disposals and Retirements	Transfers	
Land	\$ 8,290	\$ -	\$ -	\$ -	\$ 8,290
Buildings and Leasehold Improvements	3,220,597	30,725	-	-	3,251,322
Equipment	3,104,224	413,921	-	-	3,518,145
Construction in Progress	144	59,870	-	-	60,014
Subtotal	<u>6,333,255</u>	<u>504,516</u>	<u>-</u>	<u>-</u>	<u>6,837,771</u>
Less: Accumulated Depreciation:					
Buildings and Leasehold Improvements	2,330,051	103,975	-	-	2,434,026
Equipment	<u>2,203,645</u>	<u>393,893</u>	<u>-</u>	<u>-</u>	<u>2,597,538</u>
Subtotal	<u>4,533,696</u>	<u>497,868</u>	<u>-</u>	<u>-</u>	<u>5,031,564</u>
Capital Assets, Net	<u>\$ 1,799,559</u>	<u>\$ 6,648</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,806,207</u>

**NOTE 7 CAPITAL LEASE OBLIGATIONS**

The District leases certain equipment under noncancelable long-term lease agreements. The lease has been recorded as a capitalized lease. The capitalized lease assets consist of major moveable equipment. Future lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>
2018	\$ 81,230
2019	81,230
2020	81,230
2021	11,600
Total	<u>255,290</u>
Less: Interest on Capital Lease Obligation	<u>(17,383)</u>
Total	<u>\$ 237,907</u>

**Capital Lease Obligations**

The District is obligated under lease agreements for equipment that are accounted for as capital lease obligations. The total cost of the assets under capital leases at December 31, 2017 and 2016 was \$363,940, net of accumulated depreciation of \$138,228 and \$65,440, respectively. The capital lease obligations require monthly payments of \$6,769 included interest at 4.41% through February 2021 and are secured by the leased equipment.

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 8 LONG-TERM DEBT**

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

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GO Refunding Bonds, Series 2013	\$ 590,000	\$ -	\$ (70,000)	\$ 520,000	\$ 70,000
Promissory Note	-	200,000	(6,132)	193,868	37,548
Capital Lease Obligations	307,538	-	(69,631)	237,907	72,152
Total Long-Term Debt	\$ 897,538	\$ 200,000	\$ (145,763)	\$ 951,775	\$ 179,700
	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GO Refunding Bonds, Series 2013	\$ 660,000	\$ -	\$ (70,000)	\$ 590,000	\$ 70,000
Capital Lease Obligations	-	363,940	(56,402)	307,538	69,043
Total Long-Term Debt	\$ 660,000	\$ 363,940	\$ (126,402)	\$ 897,538	\$ 139,043

**General Obligation Refunding Bonds, Series 2013**

On September 12, 2013, the District issued \$800,000 in Series 2013 General Obligation Refunding Bonds (Series 2013 Bonds), with annual maturities of \$10,000 to \$80,000, through December 1, 2024, interest at 3.17%, and payable semiannually. The Series 2013 Bonds are issued pursuant to the Bond Resolution and the District is to levy property taxes sufficient to pay the annual principal and interest on the Series 2013 Bonds.

**Promissory Note**

On October 13, 2017, the District entered into a promissory note agreement for \$200,000 that matures on October 13, 2022. The note requires monthly payments of \$3,629, bears interest at 3.35% and is collateralized by the equipment purchased with the proceeds of the note.

**Principal and Interest Payments on all Debt**

Scheduled principal and interest payments on long-term debt are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 179,700	\$ 31,565
2019	184,245	24,801
2020	193,971	17,856
2021	128,124	11,696
2022	110,735	7,838
Thereafter	155,000	7,450
Total	\$ 951,775	\$ 101,206

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 9 RESTRICTED NET POSITION**

At December 31, 2017 and 2016, the restricted nonexpendable net position was available for the following:

	2017	2016
Restricted Nonexpendable Net Position - Endowment	\$ 49,320	\$ 49,221

The District received funds from a contributor to establish an endowment. The earnings on the endowment can be expended to support the District's activities.

**NOTE 10 PENSION PLAN**

The District has a defined contribution profit sharing pension plan (the Plan) under which employees become eligible upon hire to participate in the Plan if the employee works more than 32 hours per week. The Plan was established by and can be amended by the authority of the District's Board of Directors. Employees are always 100% vested in their accounts under the Plan. Distributions can be made by the participant from their vested account balance upon reaching retirement age or terminating employment with the District. Employer contributions are a match of the employee contributions up to a percent of annual salary, for eligible participating employees and are deposited with the plan trustee who invests the plan assets. The contribution percentage is set by the board of directors on an annual basis. Total pension plan expense for the years ending December 31, 2017, 2016, and 2015 was \$59,500, \$41,346, and \$11,202, respectively.

**NOTE 11 COMMITMENTS AND CONTINGENCIES**

**Risk Management**

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

**Litigation**

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

**HAXTUN HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Malpractice Claims**

The District pays fixed premiums for annual medical malpractice insurance coverage under an occurrence policy. Under such policy, claims are covered only if the incident occurred during the policy term. The District is not aware of any unasserted claims, unreported incidents, or claims outstanding, which are expected to exceed malpractice insurance coverage limits as of December 31, 2017. Further, the District is subject to the provisions of the Colorado Government Immunity Act, which provides limitations on the liability of the District.

**Compliance**

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously, billed and collected revenues from patient services. The District records allowances where the government has shown a pattern of adjusting periodic reports submitted by the District, including Medicare cost reports or tax reporting, or where internal reviews indicate the possibility of future adjustments. Management believes that the District is in substantial compliance with current laws and regulations.

**Other**

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence of care
- Environmental pollution
- Violation of a regulatory body's rules and regulations
- Violation of federal and/or state laws

No other contingent liabilities such as, but not limited to those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

**HAXTUN HOSPITAL DISTRICT  
BUDGETED AND ACTUAL REVENUES AND EXPENSES  
YEAR ENDED DECEMBER 31, 2017**

	Actual	Budgeted	Favorable (Unfavorable) Variance
<b>OPERATING REVENUES</b>			
Net Patient Service Revenue	\$ 8,429,580	\$ 9,046,170	\$ (616,590)
Other	183,760	214,500	(30,740)
Total Operating Revenues	8,613,340	9,260,670	(647,330)
<b>OPERATING EXPENSES</b>			
Salaries, Wages, and Employee Benefits	5,548,251	6,062,086	513,835
Other	3,965,771	2,881,546	(1,084,225)
Total Operating Expenses	9,514,022	8,943,632	(570,390)
<b>OPERATING GAIN (LOSS)</b>	(900,682)	317,038	(1,217,720)
Nonoperating Revenues	329,919	334,589	(4,670)
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENSES</b>	\$ (570,763)	\$ 651,627	\$ (1,222,390)

**NOTE TO SCHEDULE**

Annual budgets are adopted as required by Colorado statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America.

Appropriations are adopted by resolution in total.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Haxtun Hospital District  
Haxtun, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Haxtun Hospital District (the District), which comprise the statement of net position as of December 31, 2017, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 20, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we considered to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as 2017-001, 2017-002, and 2017-003 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**District's Response to Findings**

The District's response to the findings identified in our audit are described in the accompanying schedule of findings. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion of the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Denver, Colorado  
June 20, 2018

**HAXTUN HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2017**

**2017-001: CONTROL OVER THE FINANCIAL REPORTING PROCESS**

Type of Finding: Material Weakness in Internal Control over Financial Reporting

**Condition**

As part of the audit, management requested CliftonLarsonAllen to prepare a draft of their financial statements, including the related notes to financial statements. As part of the District's internal control over preparation of its financial statements, including disclosures, management has implemented a comprehensive review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the District's activities and operations. The District's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the District's financial statements and related disclosures, to provide high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

**Criteria**

It is the responsibility of management to assure financial statements including all required footnote disclosures are presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

**Effect**

Material misstatements related to financial statement presentation and disclosures could be present.

**Cause**

Management feels that committing the resources necessary to develop the expertise and perform a detail review of the footnote disclosure for completeness would be a duplication of expenditures, as this is part of the cost of the audit engagement. In addition, the CFO reviews internal financial statements on a monthly basis and presents the results to the board of directors.

**Context**

While performing audit procedures, it was noted that the District's personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the District's financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

**Recommendation**

We recommend that management implement an effective financial statement review process, which would ensure compliance with accounting standards and all required footnote disclosures.

**Management's Response**

Management agrees with the finding and will begin monitoring accounting developments to enable the District to review the financial statements and related disclosures for completeness.

**HAXTUN HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2017**

**2017-002: MISSTATEMENTS DETECTED BY THE AUDIT**

Type of Finding: Material Weakness in Internal Control over Financial Reporting

**Condition**

As part of the audit, we proposed an adjustment to allowances on patient accounts receivable that were not identified by management as a result of the District's existing internal controls.

**Criteria**

A good system of internal controls involves reconciliation of accounts on a monthly basis, with review for accuracy and timeliness.

**Effect**

The control deficiency could result in a misstatement to the interim or annual financial statements that would not be prevented or detected and corrected on a timely basis.

**Cause**

Management does not have a control procedure in place to complete an analysis on the estimated allowances on patient accounts receivable throughout the year, which resulted in a material audit adjustment.

**Context**

While performing audit procedures it was noted that controls were not in place to ensure the allowances on patient accounts receivable were reasonably stated.

**Recommendation**

We recommend the District's management implement an ongoing estimation process around the allowances on patient accounts receivable to ensure they are adjusted properly throughout the year and necessary adjustments are recorded by management prior to the audit.

**Management's Response**

Management agrees with the finding and will review current reporting procedures to identify all significant adjustments in the financial reporting process.

**HAXTUN HOSPITAL DISTRICT  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2017**

**2017-003: PAYROLL SEGREGATION OF DUTIES**

Type of Finding: Material Weakness in Internal Control over Financial Reporting

**Condition**

The limited number of staff in the finance department at the District does not facilitate the segregation of duties necessary to achieve a low level of control risk.

**Criteria**

A good system of internal controls provides for appropriate segregation of duties so no one individual is responsible for authorizing, processing, and recording a transaction.

**Effect**

Material misstatements related to financial statement presentation and disclosures could be present.

**Cause**

The District has limited resources within the human resources and finance department, which limits the ability to segregate duties within the payroll function.

**Context**

While performing audit procedures it was noted that multiple employees have access to the payroll system and master files. It was noted that those individuals with access have the ability to change wage rates and there is no formal review to see if there were any unauthorized wage rate changes made during the pay period.

**Recommendation**

We recommend the District continually review its internal control procedures to segregate duties to the best of its abilities. Where duties are not able to be fully segregated, we recommend the District implement other compensating controls to reduce the possibility of internal controls being overrode.

**Management's Response**

Management agrees with the finding and will review current internal control structure and segregate duties where possible. If duties are not able to be appropriately segregated, the District will implement mitigating controls to minimize the opportunity for controls to be overridden.