



UPPER SAN JUAN HEALTH SERVICE DISTRICT  
BASIC FINANCIAL STATEMENTS  
AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
December 31, 2017 and 2016



**RECEIVED**  
Office of the State Auditor  
July 5, 2018

## CONTENTS

	Page
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	1
MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3
<b>BASIC FINANCIAL STATEMENTS</b>	
STATEMENTS OF NET POSITION .....	7
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION .....	8
STATEMENTS OF CASH FLOWS .....	9
NOTES TO FINANCIAL STATEMENTS.....	11
<b>SUPPLEMENTARY INFORMATION</b>	
SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL .....	23



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

May 15, 2018

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, 2017 and 2016, 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 15, 2018  
Page Two

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, 2017 and 2016, 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 2016 and 2017,

- Net assets increased by \$780,757 (2.6% of net revenues).
- Total operating revenues increased 7.4%, from \$28,015,845 to \$30,101,343. Operating revenues exclude revenues from capital grants and donations.
- Total operating expenses, including interest, increased 9%, from \$28,779,132 to \$31,396,267.
- Total assets, net of depreciation, decreased by \$19,772 from \$37,796,993 to \$37,777,221.
- Cash decreased by \$1,496,958 to \$6,867,360.
- Total liabilities decreased by \$842,416 to \$27,261,456.

### **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>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$13,392,224	\$15,660,920	\$12,258,123
Capital assets	<u>24,384,997</u>	<u>22,136,073</u>	<u>13,478,988</u>
Total assets	37,777,221	37,796,993	25,737,111
Current liabilities	6,639,822	6,667,287	6,198,832
Non-current liabilities	<u>20,621,634</u>	<u>21,436,585</u>	<u>12,737,422</u>
Total liabilities	27,261,456	28,103,872	18,936,254
Deferred inflows	<u>1,121,851</u>	<u>1,079,964</u>	<u>1,072,038</u>
Total deferred inflows	1,121,851	1,079,964	1,072,038
Net position			
Net investment in capital assets	3,919,680	1,958,252	862,694
Unrestricted	<u>5,474,234</u>	<u>6,654,905</u>	<u>4,866,125</u>
Total net position	<u>\$9,393,914</u>	<u>\$8,613,157</u>	<u>\$5,728,819</u>

**REVIEW OF REVENUES**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues			
Charges for services	\$25,251,644	\$25,028,794	\$23,399,160
Provider Fee	2,327,092	1,427,441	1,522,232
Operating Grants	283,937	48,243	291,390
Other	<u>2,238,670</u>	<u>1,511,367</u>	<u>766,829</u>
Total	30,101,343	28,015,845	25,979,611
Non-operating revenues			
Specific ownership taxes	106,709	106,709	99,925
General property taxes	1,065,181	1,038,026	1,022,199
Investment income	32,681	13,910	6,072
Grants	355,875	1,727,736	33,215
Donations	<u>515,235</u>	<u>1,114,864</u>	<u>579,698</u>
Total	<u>2,075,681</u>	<u>4,001,245</u>	<u>1,741,109</u>
Total revenues	<u>\$32,177,024</u>	<u>\$32,017,090</u>	<u>\$27,720,720</u>

The District's total revenue increased in 2017 by \$159,934 from 2016 primarily as a result of increased patient revenue and volume generated by new hospital services as well as growth in existing services. Provider Fee revenue also increased.

## REVIEW OF EXPENSES

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating expenses	\$30,556,243	\$28,225,481	\$25,313,782
Non-operating expenses			
Debt Issuance costs		353,620	-
Interest expense	<u>840,024</u>	<u>553,651</u>	<u>653,429</u>
Total expenses	<u>\$31,396,267</u>	<u>\$29,132,752</u>	<u>\$25,967,211</u>

The District's total expenses increased between 2016 and 2017 by \$2,263,515 primarily as a result of higher volumes and bond Interest expense.

Change in net position	\$780,757	\$2,884,338	\$1,753,509
Net position, beginning	<u>8,613,157</u>	<u>5,728,819</u>	<u>3,975,310</u>
Net position, ending	<u>\$9,393,914</u>	<u>\$8,613,157</u>	<u>\$5,728,819</u>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets, net of depreciation (see Note D to the financial statements) increased \$2,248,924 between 2016 and 2017. The reason for the increase was the completion of a new clinic in April 2017.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Non-depreciable assets:			
Land	\$101,000	\$101,000	\$101,000
Construction in progress	65,945	10,106,960	743,299
Depreciable assets:			
Buildings	21,124,620	8,628,364	8,944,761
Building improvements	687,114	602,218	443,177
Vehicles	65,131	118,179	119,290
Equipment	1,771,806	1,569,709	1,718,969
EHR	491,919	944,824	1,348,122
Furniture and fixtures	<u>77,462</u>	<u>64,819</u>	<u>60,370</u>
Total capital assets	<u>\$24,384,997</u>	<u>\$22,136,073</u>	<u>\$13,478,988</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 2014 and 2016, to fund equipment purchases. The District's remaining debt obligations, including the bond premium, was \$21,394,855 at December 31, 2017. See Note F to the financial statements. Note that the District entered into a long-term capital lease agreement totaling \$500,000 during 2017 for new Hospital Equipment.

## **ECONOMIC AND OTHER FACTORS**

The District surgical services including GI procedures as well as ophthalmological, general surgery, plastic and orthopedic surgery declined in revenue by 1% from the prior year. Revenue from the emergency department increased by 7%, while radiology revenue increased by 16% over the prior year. Combined, clinic revenue declined from the prior year by 1%, and patient visits decreased by 8%. CT and MRI departments were up by 10% and 19% respectively from 2016. The District's Net Accounts Receivable decreased by \$346,385 from prior year. The District was able to control expenses along with increased cash collections from accounts receivable, and payments from the Provider Fee of \$2,327,092. The District received \$1,396,144 from the 340B program, an increase of \$858,304.

## **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 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,

	2017	2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and investments	\$ 5,937,822	\$ 6,835,887
Cash and investments, restricted	929,538	1,528,431
Receivables		
Patient, net of allowances	3,693,611	4,039,634
Property taxes	1,121,851	1,079,964
Other receivables	276,563	778,140
Inventories	1,198,440	1,213,083
Prepaid assets	234,399	185,781
<b>Total current assets</b>	<u>13,392,224</u>	<u>15,660,920</u>
Capital assets, net of depreciation	24,384,997	22,136,073
<b>Total assets</b>	<u>37,777,221</u>	<u>37,796,993</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable	4,308,440	4,544,503
Accrued expenses	1,142,302	985,367
Unearned revenue	415,859	430,830
Long-term debt due within one year	773,221	706,587
<b>Total current liabilities</b>	<u>6,639,822</u>	<u>6,667,287</u>
Unearned revenue	-	436,920
Long-term debt	20,621,634	20,999,665
<b>Total liabilities</b>	<u>27,261,456</u>	<u>28,103,872</u>
<b>DEFERRED INFLOWS</b>		
Unavailable property taxes	1,121,851	1,079,964
<b>Total deferred inflows</b>	<u>1,121,851</u>	<u>1,079,964</u>
<b>NET POSITION</b>		
Net investment in capital assets	3,919,680	1,958,252
Unrestricted	5,474,234	6,654,905
<b>Total net position</b>	<u>\$ 9,393,914</u>	<u>\$ 8,613,157</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,	
	2017	2016
Operating revenues		
Charges for services	\$ 25,251,644	\$ 25,028,794
Provider fee	2,327,092	1,427,441
Operating grants	283,937	48,243
Other	2,238,670	1,511,367
Total operating revenues	<u>30,101,343</u>	<u>28,015,845</u>
Operating expenses		
Personnel	19,065,512	18,155,002
Facilities	432,532	403,056
Depreciation	1,988,458	1,448,010
Insurance	235,170	248,247
Purchased services and other	5,040,144	4,622,634
Supplies	3,794,427	3,348,532
Total operating expenses	<u>30,556,243</u>	<u>28,225,481</u>
Net operating income (loss)	(454,900)	(209,636)
Non-operating revenues (expenses)		
General property taxes	1,065,181	1,038,026
Specific ownership taxes	106,709	106,709
Capital grants	355,875	1,727,736
Donations	515,235	1,114,864
Interest earned	32,681	13,910
Debt issuance costs	-	(353,620)
Interest expense	(840,024)	(553,651)
Total non-operating revenues (expenses)	<u>1,235,657</u>	<u>3,093,974</u>
Change in net position	780,757	2,884,338
Net position, beginning of year	<u>8,613,157</u>	<u>5,728,819</u>
Net position, end of year	<u>\$ 9,393,914</u>	<u>\$ 8,613,157</u>

The accompanying notes are an integral part of these statements.

**STATEMENTS OF CASH FLOWS**

## Upper San Juan

## STATEMENTS OF

	Years ended	
	2017	2016
<b>Increase (Decrease) in Cash and Cash Equivalents</b>		
<b>Cash flows from operating activities</b>		
Cash received from charges for services	\$ 29,679,992	\$ 29,209,509
Cash received from operating grants	283,937	17,180
Cash payments to suppliers	(9,088,246)	(9,707,358)
Cash payments to employees	(18,511,825)	(18,047,717)
Net cash provided by (used in) operating activities	2,363,858	1,471,614
<b>Cash flows from noncapital financing activities</b>		
Cash received from taxes	1,171,890	1,144,735
Donations	528,381	1,101,718
Net cash provided by (used in) noncapital financing activities	1,700,271	2,246,453
<b>Cash flows from capital and related financing activities</b>		
Principal payments on long-term debt	(792,954)	(2,937,643)
Purchase of capital assets	(5,497,897)	(8,751,273)
Proceeds from debt	500,000	10,934,314
Capital grants	1,057,433	1,026,178
Interest paid	(860,350)	(566,725)
Net cash provided by (used in) capital and related financing activities	(5,593,768)	(295,149)
<b>Cash flows from investing activities</b>		
Interest received	32,681	13,910
Net cash provided by (used in) investing activities	32,681	13,910
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,496,958)</b>	<b>3,436,828</b>
Cash and cash equivalents at the beginning of the year	8,364,318	4,927,490
Cash and cash equivalents at the end of the year	<u>\$ 6,867,360</u>	<u>\$ 8,364,318</u>

The accompanying notes are an integral part of these statements.

Health Service District

CASH FLOWS

December 31,

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash</b>		
<b>Provided by (Used in) Operating Activities</b>		
Operating income (loss)	\$ (454,900)	\$ (209,636)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	1,988,458	1,448,010
Loss on asset disposition	1,700	653
(Increase) decrease in accounts receivable	346,023	1,136,359
(Increase) decrease in other receivables	(213,127)	(31,063)
(Increase) decrease in prepaid expenses	(48,618)	(48,774)
(Increase) decrease in inventory	14,643	(299,861)
Increase (decrease) in accounts payable	1,022,753	(458,654)
Increase (decrease) in accrued liabilities	158,817	100,815
Increase (decrease) in unearned revenue	(451,891)	(166,235)
Total adjustments	<u>2,818,758</u>	<u>1,681,250</u>
Net cash provided by (used in) operating activities	<u>\$ 2,363,858</u>	<u>\$ 1,471,614</u>
<b>Non-cash activity from noncapital financing, capital and related financing, and investing</b>		
Amortization of bond premium	\$ 18,443	\$ 16,743
Purchase of capital assets with capital leases	449,203	54,930
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
Capital grants in other receivables	-	701,558

Upper San Juan Health Service District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

---

**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, 2017 and 2016

---

**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, 2017 were \$47,728,720. The District did not adopt any supplemental appropriations for 2017.

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, 2017 and 2016

---

**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, 2017 and 2016

---

**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, 2017 and 2016

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

**16. Reclassifications**

For comparability, 2016 amounts may have been reclassified where appropriate to conform to the year 2017 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:

	2017	2016
Bank balance of deposits	\$ 4,296,114	\$ 5,465,685
Deposits covered by FDIC	250,000	250,000
Collateralized deposits	\$ 4,046,114	\$ 5,215,685

Cash carrying value is as follows:

Cash on hand	\$ 2,750	\$ 2,650
Cash in banks	4,090,013	5,304,740
	\$ 4,092,763	\$ 5,307,390

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, 2017 and 2016

---

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

At December 31, 2017, the District had invested \$1,522,156 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 operates like a 2a-7 external investment pool and investments in the pool are valued at \$1 net asset value (NAV) per share. The underlying investments held by Colotrust are valued at fair value.

The District's remaining investments at December 31, 2017 and 2016 were in money market funds, with a carrying value of \$1,252,441 and \$974,871, respectively. Of the amounts, \$50,797 and \$64,902 in 2017 and 2016, respectively, are restricted for capital purchases. Also of the amounts, \$878,741 and \$886,699 in 2017 and 2016, respectively, are restricted for debt service.

**NOTE C – PROPERTY TAXES**

Property taxes for 2017, collectible in 2018, were certified by the Archuleta, Hinsdale and Mineral County Commissioners before December 31, 2017. Property taxes attached as an enforceable lien on January 1, 2018 and are due in total April 30, 2018 or in equal installments February 28, 2018 and June 15, 2018, at the option of the taxpayer. Property taxes for 2017, collectible in 2018, 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 2016, which were collected in 2017, are recognized as revenue in these financial statements. Of the total \$1,079,964 in property taxes levied, \$1,057,115 was collected, resulting in a collection percentage of 97.88%.

Upper San Juan Health Service District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

**NOTE D – CAPITAL ASSETS**

At December 31, 2017 capital asset transactions and balances include the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Non-depreciable assets:</b>				
Land	\$ 101,000	\$ –	\$ –	\$ 101,000
CIP	<u>10,106,960</u>	<u>3,336,390</u>	<u>13,377,405</u>	<u>65,945</u>
<b>Total capital assets, not being depreciated</b>	10,207,960	3,336,390	13,377,405	166,945
<b>Depreciable assets:</b>				
Buildings	12,352,009	13,377,406	–	25,729,415
Building improvements	988,314	175,894	–	1,164,208
Vehicles	892,122	3,964	–	896,086
Equipment	5,342,122	702,075	3,754	6,040,443
EHR	2,253,251	–	–	2,253,251
Furniture and fixtures	<u>174,536</u>	<u>20,758</u>	–	<u>195,294</u>
<b>Total capital assets, being depreciated</b>	22,002,354	14,280,097	3,754	36,278,697
<b>Less accumulated depreciation for:</b>				
Buildings	3,723,645	881,150	–	4,604,795
Building improvements	386,096	90,998	–	477,094
Vehicles	773,934	57,021	–	830,955
Equipment	3,772,413	498,278	2,054	4,268,637
EHR	1,308,427	452,905	–	1,761,332
Furniture and fixtures	<u>109,726</u>	<u>8,106</u>	–	<u>117,832</u>
<b>Total accumulated depreciation</b>	<u>10,074,241</u>	<u>1,988,458</u>	<u>2,054</u>	<u>12,060,645</u>
<b>Total capital assets, being depreciated</b>	<u>11,928,113</u>	<u>12,291,639</u>	<u>(1,700)</u>	<u>24,218,052</u>
<b>Total capital assets, net</b>	<u>\$ 22,136,073</u>	<u>\$ 15,628,029</u>	<u>\$(13,379,105)</u>	<u>\$ 24,384,997</u>

Depreciation during 2017 and 2016 was \$1,988,458 and \$1,448,010, 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, 2017 and 2016

**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.

	2017	2016
Gross revenue based on established rates	\$ 52,247,897	\$ 49,816,325
Less contractual adjustments and bad debts	(26,615,790)	(24,694,020)
Less charity care	(380,463)	(93,511)
	<u>\$ 25,251,644</u>	<u>\$ 25,028,794</u>

Patient accounts receivable at December 31, consist of:

Patient services	\$ 8,335,310	\$ 8,241,247
Allowance for contractual adjustments and doubtful accounts	(4,641,699)	(4,201,613)
Net patient accounts receivable	<u>\$ 3,693,611</u>	<u>\$ 4,039,634</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, 2017 and 2016, the District provided \$207,212 and \$49,600 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, 2017 and 2016

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

**2016 Bonds**

	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 300,000	\$ 527,919
2019	305,000	518,088
2020	320,000	507,131
2021	330,000	494,944
2022	340,000	484,081
2023-2027	1,190,000	2,307,206
2028-2032	1,430,000	2,065,794
2033-2037	1,785,000	1,712,925
2038-2042	2,360,000	1,135,113
2043-2046	2,485,000	316,203
	<u>\$ 10,845,000</u>	<u>\$ 10,069,404</u>

**2006/2007 Bonds**

	<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 290,000	\$ 452,904
2019	305,000	440,966
2020	320,000	426,828
2021	335,000	410,453
2022	350,000	393,328
2023-2027	2,055,000	1,676,852
2028-2032	2,625,000	1,106,394
2033-2037	3,340,000	393,011
	<u>\$ 9,620,000</u>	<u>\$ 5,300,736</u>

At December 31, 2017, the District was in compliance with all bond covenants.

**Long-term leases**

During 2017 the District entered into a long-term capital lease for new equipment. Payments for the new lease are due monthly with interest at 3.37% through May 2022. Monthly payments are \$9,042. The gross value of the capital assets associated with the lease agreement is \$455,252.

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

	<u>Leases Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 94,969	\$ 13,530
2019	98,220	10,279
2020	101,581	6,917
2021	105,060	3,439
2022	44,829	378
	<u>\$ 444,659</u>	<u>\$ 34,543</u>

Upper San Juan Health Service District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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

During 2016 the District entered into long-term capital leases for a new phone system. Payments for the 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
2018	\$ 18,309	\$ -
2019	11,815	-
	<u>\$ 30,124</u>	<u>\$ -</u>

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
2018	\$ 51,499	\$ 453

A schedule of changes in the District's noncurrent liabilities for 2017 follows:

	December 31, 2016	Additions	Reductions	December 31, 2017	Due Within One Year
Bonds payable	\$ 21,035,000	\$ -	\$ 570,000	\$ 20,465,000	\$ 590,000
Bond premium	422,016	-	18,443	403,573	18,444
Leases payable	249,236	500,000	222,954	526,282	164,777
	<u>\$ 21,706,252</u>	<u>\$ 500,000</u>	<u>\$ 811,397</u>	<u>\$ 21,394,855</u>	<u>\$ 773,221</u>

**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.

Upper San Juan Health Service District

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

**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 were \$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 2017 and 2016 were \$100,788 and \$91,672, respectively. The District did not owe the related party any amounts at December 31, 2017 and 2016.

Other operating leases were entered into with starting dates in 2009 through 2017 and payments from \$205 to \$21,900. The leases terminate anywhere from January 2019 through March 2022. Rent payments on the various operating leases for 2017 totaled \$580,362 (including the rent payment to the related party noted above). The minimum lease payments due in the future at December 31, 2017 are as follows:

2018	\$	542,098
2019		464,107
2020		411,050
2021		235,850
2022		<u>29,295</u>
Total	\$	<u>1,682,400</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, 2017, the employee and employer contributions to the plan were \$994,346 and \$994,285, respectively. For the year ended December 31, 2016, the employee and employer contributions to the plan were \$872,603 and \$872,603, respectively.

Upper San Juan Health Service District  
NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

---

**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.

**SUPPLEMENTARY INFORMATION**

Upper San Juan Health Service District

SCHEDULE OF REVENUES AND EXPENSES  
BUDGET AND ACTUAL

Year ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>				
Patient services and subscriptions	\$ 56,567,055	\$ 56,567,055	\$ 52,247,897	\$ (4,319,158)
Adjustments	(28,070,900)	(28,070,900)	(26,996,253)	1,074,647
Provider fee	1,378,612	1,378,612	2,327,092	948,480
Other operating revenue	1,538,900	1,538,900	2,238,670	699,770
Property taxes	1,149,000	1,149,000	1,171,890	22,890
Donations	350,000	350,000	515,235	165,235
Interest	17,500	17,500	32,681	15,181
Debt proceeds	-	-	500,000	500,000
Grants	820,000	820,000	639,812	(180,188)
Total revenues	33,750,167	33,750,167	32,677,024	(1,073,143)
<b>Expenses</b>				
Salaries and wages	16,392,570	16,392,570	16,688,426	(295,856)
Payroll taxes and benefits	3,082,000	3,082,000	2,377,086	704,914
Facilities	500,100	500,100	432,532	67,568
Insurance	302,000	302,000	235,170	66,830
Debt service				
Principal	560,000	560,000	792,954	(232,954)
Interest	799,756	799,756	840,024	(40,268)
Purchased services and other	5,119,439	5,119,439	5,040,144	79,295
Supplies	3,535,133	3,535,133	3,794,427	(259,294)
Depreciation	1,815,807	1,815,807	1,988,458	(172,651)
Capital outlay	4,925,809	4,925,809	4,239,081	686,728
Contingency	10,696,106	10,696,106	-	10,696,106
Total expenses	47,728,720	47,728,720	36,428,302	11,300,418
Change in net position budgetary basis	<u>\$ (13,978,553)</u>	<u>\$ (13,978,553)</u>	<u>(3,751,278)</u>	<u>\$ 10,227,275</u>
<b>Reconciliation to GAAP basis</b>				
Debt proceeds			(500,000)	
Capitalized capital outlay			4,239,081	
Debt service principal payments			792,954	
Change in net position GAAP basis			780,757	
Total net position - beginning			8,613,157	
Total net position - ending			<u>\$ 9,393,914</u>	