

**Huerfano County Hospital District d/b/a  
Spanish Peaks Regional Health Center**

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

December 31, 2018 and 2017

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## Independent Auditor's Report

Board of Directors  
Huerfano County Hospital District  
d/b/a Spanish Peaks Regional Health Center  
Walsenburg, Colorado

### Report on the Financial Statements

We have audited the accompanying financial statements of Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the District), as of and for the years ended December 31, 2018 and 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Board of Directors  
Huerfano County Hospital District  
d/b/a Spanish Peaks Regional Health Center

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining statements of net position and the related combining statements of revenues, expenses and changes in net position and the budget and actual revenues and expenses as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining statements of net position and the related combining statements of revenues, expenses and changes in net position and the budget and actual revenues and expenses 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 combining statements of net position and the related combining statements of revenues, expenses and changes in net position and the budget and actual revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**BKD, LLP**

Colorado Springs, Colorado  
August 22, 2019

# **Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2018 and 2017**

## **Introduction**

This management's discussion and analysis of the financial performance of Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the District) provides an overview of the District's financial activities for the years ended December 31, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the District. Separate financial statements of Colorado State Veterans Nursing Home (the Nursing Home), a component unit of Huerfano County Hospital District, can be obtained by contacting the District's Financial Management.

## **Financial Highlights**

- Cash and investments increased in 2018 by \$185,466, or 4%, and increased in 2017 by \$376,012, or 8%.
- The District's net position increased in 2018 by \$225,392, or 2% and decreased in 2017 by \$638,822, or 6%.
- The District reported operating loss of \$349,876 in 2018 and \$1,448,586 in 2017.
- Net nonoperating revenues decreased by \$234,496, or 29%, in 2018, and increased by \$47,303, or 6%, in 2017.

## **Using This Annual Report**

The District's financial statements consist of three statements – the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. These 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 accrual basis of accounting.

## **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 assets 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.

**Huerfano County Hospital District d/b/a  
Spanish Peaks Regional Health Center  
Management’s Discussion and Analysis (Unaudited)  
Years Ended December 31, 2018 and 2017**

These two statements report the District’s net position and changes in them. 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 assets are an indicator of whether its 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 statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of 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 combined net position, the difference between its assets and liabilities reported in the statements of net position, increased by \$225,392, or 2%, over 2017, as shown in Table 1.

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>			
Cash and investments	\$ 5,149,554	\$ 4,964,088	\$ 4,588,076
Patient accounts receivable, net	2,701,431	2,694,107	2,682,859
Other current assets	1,798,146	1,495,789	1,833,367
Capital assets, net	<u>9,418,198</u>	<u>10,457,117</u>	<u>11,162,419</u>
Total assets	<u>\$ 19,067,329</u>	<u>\$ 19,611,101</u>	<u>\$ 20,266,721</u>
<b>Liabilities</b>			
Current and noncurrent liabilities	\$ 3,246,739	\$ 3,635,650	\$ 4,190,848
Long-term debt	<u>3,944,126</u>	<u>4,786,008</u>	<u>4,225,970</u>
Total liabilities	<u>7,190,865</u>	<u>8,421,658</u>	<u>8,416,818</u>
<b>Deferred Inflows - Deferred Property Tax Revenue</b>	<u>876,860</u>	<u>415,231</u>	<u>436,869</u>
Total liabilities and deferred inflows of resources	<u>8,067,725</u>	<u>8,836,889</u>	<u>8,853,687</u>

**Huerfano County Hospital District d/b/a  
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**Table 1: Assets, Liabilities and Net Position (continued)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Net Position</b>			
Net investment in capital assets	4,796,014	5,021,453	6,480,034
Restricted	1,800,075	1,800,770	1,795,749
Unrestricted	<u>4,403,515</u>	<u>3,951,989</u>	<u>3,137,251</u>
 Total net position	 <u>10,999,604</u>	 <u>10,774,212</u>	 <u>11,413,034</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 19,067,329</u>	 <u>\$ 19,611,101</u>	 <u>\$ 20,266,721</u>

The increase in cash is due to increased volumes and staffing changes. The increase in net patient accounts receivable was the result of increased inpatient admissions and outpatient clinic visits. Capital assets decreased due to the continued depreciation of capital assets.

The change in the District's financial position in 2018 aligned with the prior year's financial trends.

**Operating Results and Changes in the District's Net Position**

In 2018, the District's net position increased by \$225,392, compared to a decrease of \$638,822 and \$3,472,150 in 2017 and 2016, respectively, as shown in Table 2. This increase is made up of several different components.

**Huerfano County Hospital District d/b/a  
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**Table 2: Operating Results and Changes in Net Position**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 25,564,940	\$ 23,473,092	\$ 21,156,267
Other operating revenue	2,463,383	2,284,691	2,253,226
Total operating revenues	<u>28,028,323</u>	<u>25,757,783</u>	<u>23,409,493</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	18,510,307	17,883,193	18,481,546
Purchased services and professional fees	3,645,435	3,336,499	2,643,497
Supplies and other	5,141,042	4,779,548	5,292,033
Depreciation	1,081,415	1,207,129	1,227,028
Total operating expenses	<u>28,378,199</u>	<u>27,206,369</u>	<u>27,644,104</u>
<b>Operating Loss</b>	<u>(349,876)</u>	<u>(1,448,586)</u>	<u>(4,234,611)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	445,418	515,795	461,983
Investment income	6,237	622	8,507
Noncapital grants and gifts	337,086	416,250	477,344
Interest expense	(213,544)	(141,456)	(185,388)
Other nonoperating revenues and expenses, net	71	18,553	15
Total nonoperating revenues	<u>575,268</u>	<u>809,764</u>	<u>762,461</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 225,392</u>	<u>\$ (638,822)</u>	<u>\$ (3,472,150)</u>

**Operating Increases**

The first component of the overall change in the District's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The District was formed and is operated primarily to serve residents of Huerfano County and the surrounding area. The District levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

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The primary components of the operating loss are:

- An increase in net patient service revenue of \$2,091,848, or 9%, in 2018 and an increase in net patient service revenue of \$2,316,825, or 11%, in 2017.
  - 2018 – An increase in hospital registration of 964 registrations from the prior year and an increase from \$4,640,176 in clinic charges in 2017 to \$6,495,803 in 2018.
  - 2017 – A decrease of approximately \$3.8 million in allowance for doubtful patient accounts leveled out from the 2016 elevated adjustments for multiple prior year patient claims which included out of timely patient claims. In addition, a decrease in third party reserves contributed to paying down the prior year Colorado DSH recoupments produced a lower allowance and reserve needed on the statements of financial position.
- An increase in salaries and wages for the District's employees of \$627,114, or 4%, in 2017 and a decrease of \$598,353, or 3%, in 2017.
  - 2018 – A consistent 2% merit adjustment was awarded to employees during 2018 fiscal year.
  - 2017 – The decrease in salaries was the result of one Orthopedic Surgeon leaving and another Orthopedic Surgeon retiring. In addition, the Nursing Home Assistant Administrator position was eliminated and the Nursing Home went several months without a Nursing Home Administrator.
- An increase in purchased services and professional fees of \$308,936, or 9%, in 2017 and \$693,002, or 26%, in 2017.
  - 2018 – The increase is due to the use of contract labor for staffing and a conversion from in house Human Resources leadership to a purchased service model.
  - 2017 – This is largely due to new computer conversion costs for software fees and support services, new compliance program and an increase in legal fees.
- An increase in supplies of \$361,494, or 8%, in 2018.
  - 2018 – This increase is due primarily to increased inpatient admissions and price increases from vendors for patient care supplies and pharmaceuticals.

**Huerfano County Hospital District d/b/a  
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**Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, interest expense, and noncapital grants and gifts, all of which remained relatively consistent in 2018 as compared to 2017.

Capital grants and gifts totaled \$0 for the years ended December 31, 2018 and 2017.

**The District's Cash Flows**

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2018, 2017 and 2016, discussed earlier.

**Capital Asset and Debt Administration**

**Capital Assets**

At the end of 2018, the District had \$9,418,198 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2018, the District purchased an infant warmer and 2 defibrillators.

**Debt**

At December 31, 2018, the District had \$4,622,184 in notes payable, capital lease and line of credit obligations outstanding. The decrease in debt is due to continued payments toward outstanding obligations.

**Other Economic Factors**

To help reduce costs and achieve financial excellence in operations, senior management is utilizing the existing consulting contract with Quorum Health Resource to perform a complete Revenue Cycle analysis, a financial review, and an extensive Staffing Productivity department Operations review. Senior management has developed and rolled out a Management Action Plan (MAP).

Hospital management continues to strive to offset the negative impact to revenues resulting from increased patient responsibility for healthcare services. This has occurred from the ever-increasing co-payments and deductibles inherent in health plan coverage. To offset this risk, the District is attempting to obtain funds from alternate sources, such as grants and ad valorem taxes. These monies will be spent to maintain our current level of patient care services and provide for needed capital acquisition and replacement.

With cost reductions and/or containment always being considered by both the federal government and state government, it is necessary that management continue to review and respond to pending legislation that concerns funding levels for the Medicare and Medicaid programs.

**Huerfano County Hospital District d/b/a  
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In 2018 and 2017, the District continued to build networks with surrounding healthcare systems and coalitions because of the changing healthcare environment. Collaborating with other facilities and organizations will be essential to our present and future efforts to provide high quality, efficient and effective healthcare to our community.

**Contacting the District's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District Administration at 719.738.5144.

**Huerfano County District Hospital  
d/b/a Spanish Peaks Regional Health Center**

**Statements of Net Position  
December 31, 2018 and 2017**

**Assets**

	<u>2018</u>	<u>2017</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 935,711	\$ 844,505
Cash held for residents	81,276	87,976
Patient accounts receivable, net of allowance for uncollectible accounts; 2018 - \$302,431 and 2017 - \$447,986	2,701,431	2,694,107
Property taxes receivable	876,860	415,231
Estimated third-party payer settlements	-	286,665
Supplies	474,201	503,404
Other current assets	<u>447,085</u>	<u>290,489</u>
Total current assets	<u>5,516,564</u>	<u>5,122,377</u>
<b>Noncurrent Cash and Investments</b>		
Internally designated	2,332,492	2,230,837
Assets whose use is limited		
Investments held as collateral on long-term debt	1,500,000	1,500,000
Held by Colorado State Treasurer	257,350	257,350
Cash restricted by donors	<u>42,725</u>	<u>43,420</u>
Total noncurrent cash and investments	<u>4,132,567</u>	<u>4,031,607</u>
<b>Capital Assets, Net</b>	<u>9,418,198</u>	<u>10,457,117</u>
Total assets	<u>\$ 19,067,329</u>	<u>\$ 19,611,101</u>

**Huerfano County District Hospital  
d/b/a Spanish Peaks Regional Health Center  
Statements of Net Position (continued)  
December 31, 2018 and 2017**

**Liabilities, Deferred Inflows of Resources and Net Position**

	<u>2018</u>	<u>2017</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 648,390	\$ 942,990
Accrued expenses and other current liabilities	1,764,491	1,955,028
Current maturities of long-term debt	678,058	649,656
Estimated third-party payer settlements	87,070	-
Deposits from residents	68,730	87,976
	<u>3,246,739</u>	<u>3,635,650</u>
Total current liabilities	3,246,739	3,635,650
<b>Lines of Credit</b>	707,414	858,906
<b>Long-term Debt</b>	<u>3,236,712</u>	<u>3,927,102</u>
Total liabilities	<u>7,190,865</u>	<u>8,421,658</u>
<b>Deferred Inflows of Resources</b>		
Deferred property tax revenues	<u>876,860</u>	<u>415,231</u>
Total liabilities and deferred inflows of resources	<u>8,067,725</u>	<u>8,836,889</u>
<b>Net Position</b>		
Net investment in capital assets	4,796,014	5,021,453
Restricted expendable	1,800,075	1,800,770
Unrestricted	4,403,515	3,951,989
Total net position	<u>10,999,604</u>	<u>10,774,212</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 19,067,329</u>	<u>\$ 19,611,101</u>

**Huerfano County Hospital District d/b/a  
Spanish Peaks Regional Health Center**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$663,690 and 2017 - \$692,662	\$ 25,564,940	\$ 23,473,092
Other operating revenue	<u>2,463,383</u>	<u>2,284,691</u>
Total operating revenues	<u>28,028,323</u>	<u>25,757,783</u>
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	18,510,307	17,883,193
Purchased services and professional fees	3,645,435	3,336,499
Supplies and other	5,141,042	4,779,548
Depreciation	<u>1,081,415</u>	<u>1,207,129</u>
Total operating expenses	<u>28,378,199</u>	<u>27,206,369</u>
<b>Operating Loss</b>	<u>(349,876)</u>	<u>(1,448,586)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	445,418	515,795
Investment income	6,237	622
Interest expense	(213,544)	(141,456)
Noncapital grants and gifts	337,086	416,250
Other	<u>71</u>	<u>18,553</u>
Total nonoperating revenues (expenses)	<u>575,268</u>	<u>809,764</u>
<b>Excess (Deficiency) of Revenues Over Expenses and Increase (Decrease) in Net Position</b>	225,392	(638,822)
<b>Net Position, Beginning of Year</b>	<u>10,774,212</u>	<u>11,413,034</u>
<b>Net Position, End of Year</b>	<u>\$ 10,999,604</u>	<u>\$ 10,774,212</u>

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 25,931,351	\$ 22,994,678
Payments to suppliers and contractors	(9,051,874)	(8,122,889)
Payments to employees	(18,700,844)	(17,767,293)
Other receipts, net	2,362,861	2,671,833
Net cash provided by (used in) operating activities	541,494	(223,671)
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	445,418	515,795
Noncapital grants and gifts	337,086	416,250
Borrowings on line of credit	-	1,158,906
Payments on line of credit	(151,492)	(800,000)
Other	71	18,553
Net cash provided by noncapital financing activities	631,083	1,309,504
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(661,988)	(484,833)
Interest paid	(213,544)	(141,181)
Purchase of capital assets	(117,816)	(84,429)
Net cash used in capital and related financing activities	(993,348)	(710,443)
<b>Investing Activities</b>		
Investment income	6,237	622
Purchase of investments	(790,000)	(790,000)
Proceeds from maturities of investments	790,000	790,000
Net cash provided by investing activities	6,237	622
<b>Increase in Cash and Cash Equivalents</b>	185,466	376,012
<b>Cash and Cash Equivalents, Beginning of Year</b>	2,674,088	2,298,076
<b>Cash and Cash Equivalents, End of Year</b>	\$ 2,859,554	\$ 2,674,088

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Statements of Cash Flows (continued) Years Ended December 31, 2018 and 2017

	2018	2017
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Financial Position</b>		
Cash and cash equivalents in current assets	\$ 935,711	\$ 844,505
Cash held for residents	81,276	87,976
Cash and cash equivalents in noncurrent cash and investments		
Held by Colorado State Treasurer	257,350	257,350
Cash restricted by donors	42,725	43,420
Internally designated	1,542,492	1,440,837
Total cash and cash equivalents	\$ 2,859,554	\$ 2,674,088
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (349,876)	\$ (1,448,586)
Depreciation	1,081,415	1,207,129
Provision for uncollectible accounts	663,690	692,662
Changes in operating assets and liabilities		
Patient accounts receivable	(671,014)	(703,910)
Estimated amounts due from and to third-party payers	373,735	(753,831)
Accounts payable and other current liabilities	(485,137)	175,423
Other assets and liabilities	(71,319)	607,442
Net cash provided by (used in) operating activities	\$ 541,494	\$ (223,671)
<b>Noncash Investing, Capital and Financing Activities</b>		
Capital lease obligations incurred for capital assets	\$ -	\$ 379,206
Capital asset acquisition in accounts payable	\$ -	\$ 38,192
Restructure of existing line of credit to note payable (see Note 7)	\$ -	\$ 1,801,611

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements

December 31, 2018 and 2017

### Note 1: Nature of Operations and Summary of Significant Accounting Policies

#### *Nature of Operations and Reporting Entity*

Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the District) is a political subdivision formed under the Colorado Revised Statutes as a local service and improvement district to provide medical care to the residents of Huerfano County, Colorado, including Walsenburg. The District supports and operates the Spanish Peaks Hospital (the Hospital), a 20-bed facility that is certified as a Critical Access Hospital. In addition, a 120-bed Colorado State Veterans Nursing Home (the Nursing Home) is operated by the District adjacent to the Hospital. The District has component units, but is not a component unit of another governmental entity.

In November 1993, the District entered into a contract for the operation of the Nursing Home with the State of Colorado for the benefit of the Department of Human Services. Under the terms of the contract, the District is responsible for the costs associated with operating the facility; in return, all revenue, bank accounts and receivables accrue to the benefit of the District. The original term of the contract was 20 years and is renewable at the District's option for successive 10-year terms up to 99 years from the original commencement date.

As discussed above, expenditures made in excess of revenues earned by the Nursing Home are the responsibility of the District.

The District is organized to finance and operate a hospital and a nursing home. As required by accounting principles generally accepted in the United States of America, these financial statements present the District and each of its component units. The component units are included in the District's reporting entity because of the significance of their operational or financial relationships with the District. The separate financial statements of each component unit are presented as supplemental information in the accompanying combining financial statements.

#### *Basis of Accounting and Presentation*

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net positions when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements

December 31, 2018 and 2017

### ***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, liabilities and deferred inflows of resources 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.

### ***Cash and Cash Equivalents***

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of certificates of deposit.

At December 31, 2018, the District's cash accounts did not exceed federally insured limits.

### ***Property Taxes***

The District received approximately 2% of its financial support from property taxes in 2018 and 2017. These funds were used to support operations.

Property taxes are assessed in January and are due in one installment on April 30 or in two installments on February 28 and June 15 of each year. Property tax revenue is recognized in the year for which the taxes are levied.

### ***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; medical malpractice; and employee health, dental and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from medical malpractice. Annual estimated provisions are accrued for the self-insured portion of medical malpractice and include an estimate of ultimate costs for both reported claims and claims incurred but not yet reported.

### ***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 uncollectible

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

### ***Investments and Investment Income***

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. The investment in equity investee is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

### ***Supplies***

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

### ***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or acquisition 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 and leasehold improvements 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 and leasehold improvements	10 – 40 years
Equipment and computer software	3 – 10 years

### ***Compensated Absences***

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination rates in effect at the statements of net position date.

### ***Deferred Inflows of Resources***

The District reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position.

### ***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 and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements

December 31, 2018 and 2017

net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

### ***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 and includes 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 related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

### ***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. The costs of charity care provided under the District's charity care policy were \$165,842 and \$98,632 in 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

### ***Income Taxes***

As an essential government function of the County, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

### ***Nursing Home Cost Allocations***

Costs for the use of shared facilities, common areas and joint operations are allocated between the Nursing Home and the District in accordance with Medicare and Medicaid principles and guidelines. Allocation basis, such as direct salary dollars, square footage, number of meals, laundry pounds and telephone lines are used to allocate the costs accumulated in the various departments between the two facilities.

### ***Subsequent Events***

Subsequent events have been evaluated through August 22, 2019, which is the date the financial statements were available to be issued.

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

### Note 2: 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. These payment arrangements include:

*Medicare.* The District is designated as a Critical Access Hospital, and is reimbursed on a cost basis. The District is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the District and audit thereof by the Medicare fiscal intermediary.

*Medicaid.* Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Most outpatient services are reimbursed under a cost-reimbursement methodology. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid.

Approximately 68% and 64% of net patient service revenue are from participation in the Medicare and Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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 per discharge, discounts from established charges and prospectively determined daily rates.

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB 1293), was passed during 2009 implementing a fee on hospitals to generate matching funds to the State of Colorado from federal sources. Implementation of this act occurred during April of 2010. HB 1293 was superseded by Senate Bill 17-267 which repealed the Hospital Provider Fee and created the Colorado Healthcare Accountability and Sustainability Enterprise (CHASE), with the following effect on the District's financial statements:

	2018	2017
CHASE (2018)/provider fee supplemental revenue (2017), included in net patient service revenue	\$ 2,615,272	\$ 2,179,106
CHASE fee expense (2018)/provider fee expense (2017)	(391,862)	(279,592)
Effect of SB 17-267 (2018)/ HB 1293 (2017)	\$ 2,223,410	\$ 1,899,514

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

The CHASE provider fee payments have been recorded as an operating expense and the supplemental payments received have been recorded as an adjustment to net patient service revenue in the accompanying financial statements.

### Note 3: Patients Accounts Receivable

The District grants credit without collateral to its patients, many of whom are insured under third-party payer agreements. Patient accounts receivable at December 31, 2018 and 2017 consisted of:

	<b>2018</b>	<b>2017</b>
Medicare	\$ 1,809,925	\$ 2,157,410
Medicaid	1,248,538	1,650,769
Other third-party payers	1,817,120	1,263,881
Patients	687,585	551,619
	5,563,168	5,623,679
Less allowance for contractals and uncollectible accounts	(2,861,737)	(2,929,572)
	<b>\$ 2,701,431</b>	<b>\$ 2,694,107</b>

### Note 4: Deposits, Investments and Investment Income

#### *Deposits*

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The Colorado Public Deposit Protection Act (the PDPA) requires financial institutions to collateralize any uninsured public deposits. The bank balance is insured by federal insurance (FDIC) for up to \$250,000 for interest and noninterest bearing accounts. Any excess of deposit accounts over the FDIC limit that is not insured is covered by collateral pledged by the financial institution in accordance with the PDPA.

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements

**December 31, 2018 and 2017**

At December 31, 2018 and 2017, \$2,603,594 and \$2,647,132, respectively, of the District's bank balances of \$3,569,724 and \$3,654,282, respectively, were exposed to custodial credit risk as follows:

	2018	2017
Insured (FDIC) or collateralized with securities held by the District	\$ 966,130	\$ 1,007,150
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the District's name	2,603,594	2,647,132
	\$ 3,569,724	\$ 3,654,282

### **Investments**

The District may legally invest in certificates of deposit, money market accounts and direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. It may also invest to a limited extent in equity securities. Money market accounts are valued based on quoted prices in active markets, certificates of deposit are valued at cost, which approximates fair value, and U.S. Treasury notes are priced by the asset custodian based on quoted prices for identical or similar assets in inactive markets.

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy is limited to purchasing securities that mature within one year from the date of purchase for operating funds and five years or less from the date of purchase for capital reserves. The U.S. Treasury note was acquired to use as collateral on note payable to a bank and has a maturity date of August 31, 2019. At this date, the District will purchase another U.S. Treasury note to use as collateral on the note payable to a bank.

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. As of December 31, 2018 and 2017, the District's only investments consist of money market accounts, certificates of deposit, and the U.S. Treasury note discussed above.

**Custodial Credit Risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities pledged as collateral for the District's repurchase agreements at December 31, 2018 and 2017 are held by outside third parties. The District's investment policy states that the underlying assets related to the repurchase agreements held are to be invested in federal agency securities.

**Concentration of Credit Risk** – The District will not have any single investment exceed one-third of the total portfolio, except for U.S. Treasury securities and federal agencies.

**Foreign Currency Risk** – This risk is related to adverse effects on the fair value of an investment from changes in exchange rates. The District's investment policy does not permit foreign currency holdings at December 31, 2018.

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

### **Summary of Carrying Values**

The carrying values of deposits and investments shown above are included in the statements of net position as follows:

	<b>2018</b>	<b>2017</b>
Carrying value		
Bank deposits	\$ 2,599,608	\$ 2,413,342
U.S. Treasury note	1,500,000	1,500,000
Certificates of Deposit	790,000	790,000
On deposit with State Treasurer	257,350	257,350
Cash on hand	2,596	3,396
	<b>\$ 5,149,554</b>	<b>\$ 4,964,088</b>
Included in the following statement of net position captions		
Cash and cash equivalents	\$ 935,711	\$ 844,505
Restricted cash	81,276	87,976
Noncurrent cash and investments:		
Internally designated	2,332,492	2,230,837
Investments held as collateral on long-term debt	1,500,000	1,500,000
Held by Colorado State Treasurer	257,350	257,350
Cash restricted by donors	42,725	43,420
	<b>\$ 5,149,554</b>	<b>\$ 4,964,088</b>

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

### Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2018 and 2017 were:

	<b>2018</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Land	\$ 17,633	\$ -	\$ -	\$ -	\$ 17,633
Buildings and leasehold improvements	21,940,146	22,289	-	13,966	21,976,401
Equipment	10,565,886	95,527	(75,319)	75,319	10,661,413
Construction in progress	89,285	-	-	(89,285)	-
	<u>32,612,950</u>	<u>117,816</u>	<u>(75,319)</u>	<u>-</u>	<u>32,655,447</u>
Less accumulated depreciation					
Buildings and leasehold improvements	13,812,754	550,853	-	-	14,363,607
Equipment	8,343,079	530,563	-	-	8,873,642
	<u>22,155,833</u>	<u>1,081,416</u>	<u>-</u>	<u>-</u>	<u>23,237,249</u>
Capital assets, net	<u>\$ 10,457,117</u>	<u>\$ (963,600)</u>	<u>\$ (75,319)</u>	<u>\$ -</u>	<u>\$ 9,418,198</u>
	<b>2017</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Land	\$ 17,633	\$ -	\$ -	\$ -	\$ 17,633
Buildings and leasehold improvements	21,932,680	7,466	-	-	21,940,146
Equipment	10,137,945	427,941	-	-	10,565,886
Construction in progress	22,865	66,420	-	-	89,285
	<u>32,111,123</u>	<u>501,827</u>	<u>-</u>	<u>-</u>	<u>32,612,950</u>
Less accumulated depreciation					
Buildings and leasehold improvements	13,240,812	571,942	-	-	13,812,754
Equipment	7,707,892	635,187	-	-	8,343,079
	<u>20,948,704</u>	<u>1,207,129</u>	<u>-</u>	<u>-</u>	<u>22,155,833</u>
Capital assets, net	<u>\$ 11,162,419</u>	<u>\$ (705,302)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,457,117</u>

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

### Note 6: Lines of Credit

The District has a line of credit agreement with a financial institution that provides for borrowings of up to \$1,000,000 through the maturity date of April 3, 2019. Interest on the line of credit borrowing is payable monthly at the prime rate less 1.35% with a floor of 3.5% (4.15% at December 31, 2018). The line is collateralized by the District's accounts receivable.

The following is a summary of line of credit transactions for the District for the years ended December 31:

		2018			
		Beginning Balance	Additions	Reductions	Ending Balance
Lines of credit	Line of credit with financial institution	\$ 858,906	\$ -	\$ (151,492)	\$ 707,414
		2017			
		Beginning Balance	Additions	Reductions	Ending Balance
Lines of credit	Line of credit with financial institution	\$ 500,000	\$ 1,158,906	\$ (800,000)	\$ 858,906
	Line of credit with medical center (A)	1,801,611	-	(1,801,611)	-
	Total lines of credit	\$ 2,301,611	\$ 1,158,906	\$ (2,601,611)	\$ 858,906

(A) The District had a line of credit agreement with medical center provided for borrowings to implement and operate software through the maturity date of August 28, 2019. Interest on the line of credit borrowings was payable monthly at a rate of 4.25%. The line was collateralized by the District's assets. The line of credit was restructured during fiscal year 2017 to include a revised term and payment schedule, and was converted to a note payable to medical center at December 31, 2017 (see Note 7).

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

### Note 7: Long-term Obligations

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

		2018			Amounts Within One Year
		Beginning Balance	Additions	Reductions	Ending Balance
Long-term debt	Notes payable to banks	\$ 2,111,483	\$ -	\$ (182,536)	\$ 1,928,947
	Notes payable to medical center	1,657,465	-	(327,765)	1,329,700
	Capital lease obligations	807,810	-	(151,687)	656,123
	Total long-term debt	\$ 4,576,758	\$ -	\$ (661,988)	\$ 3,914,770
		2017			Amounts Within One Year
		Beginning Balance	Additions	Reductions	Ending Balance
Long-term debt	Notes payable to banks	\$ 2,259,266	-	\$ (147,783)	\$ 2,111,483
	Notes payable to medical center	-	1,801,611	(144,146)	1,657,465
	Capital lease obligations	621,508	379,206	(192,904)	807,810
	Total long-term debt	\$ 2,880,774	\$ 2,180,817	\$ (484,833)	\$ 4,576,758

### Notes Payable to Bank

The District has a note payable to bank with an outstanding balance of \$138,102 and \$154,759 as of December 31, 2018 and 2017, respectively, that is due September 15, 2022. Principal is payable annually and interest is payable monthly at 4.6%. The note is secured by real property.

During 2012, the District entered into a promissory note payable to a bank with maximum available borrowings for construction of \$2,500,000. As of December 31, 2018 and 2017, borrowings under the note totaled \$1,790,845 and \$1,956,724, respectively. Interest only payments at 4% were due until November 2013, when principal and interest payments became due monthly. The note matures in October 2027 and is secured by a U.S. Treasury note with a balance of \$1,500,000 as of December 31, 2018. The loan agreement requires the maintenance of certain financial covenants.

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

### **Notes Payable to Medical Center**

As discussed in Note 6, the line of credit with the medical center was restructured during 2017 and was converted to a note payable to the medical center at December 31, 2017. As of December 31, 2018 and 2017, borrowings under the note totaled \$1,329,700 and \$1,657,465, respectively. Installments of principal and interest, at 4.25%, are due monthly. The note matures August 15, 2022. The loan agreement requires the maintenance of certain financial covenants.

The debt service requirements as of December 31, 2018 are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2019	\$ 638,874	\$ 513,819	\$ 125,055
2020	637,670	534,483	103,187
2021	637,669	557,289	80,380
2022	574,404	518,329	56,075
2023	222,893	180,427	42,466
2024-2027	<u>1,046,319</u>	<u>954,300</u>	<u>92,019</u>
	<u>\$ 3,757,829</u>	<u>\$ 3,258,647</u>	<u>\$ 499,182</u>

### **Capital Lease Obligations**

The District is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2018 and 2017, totaled \$2,137,746, net of accumulated depreciation of \$1,114,281 and \$1,018,105, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.500% to 3.875% together with the present value of the future minimum lease payments as of December 31, 2018:

2019	\$ 182,376
2020	182,376
2021	182,376
2022	134,033
2023	<u>16,254</u>
Total minimum lease payments	697,415
Less amount representing interest	<u>41,292</u>
Present value of future minimum lease payments	<u>\$ 656,123</u>

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

### Note 8: Restricted Net Position

At December 31, 2018 and 2017, restricted expendable net position were available for the following purposes:

	2018	2017
Investments held as collateral on long-term debt	\$ 1,500,000	\$ 1,500,000
Nursing Home expense reserve held by Colorado State Treasurer	257,350	257,350
Resident needs, including capital acquisitions	42,725	43,420
Total restricted expendable net position	\$ 1,800,075	\$ 1,800,770

At December 31, 2018 and 2017, \$2,332,492 and \$2,230,837, respectively, of cash and investments have been designated for future use by the District's Board of Directors. Designated balances remain under the control of the Board of Directors and may be used at their discretion.

### Note 9: Operating Leases

Noncancelable operating leases for medical and office equipment expire in various years through 2022.

Future minimum lease payments at December 31, 2018, were:

2019	\$ 77,157	
2020	48,078	
2021	35,485	
2022	7,268	
Future minimum lease payments	\$ 167,988	

Lease expense for all operating leases for the years ended December 31, 2018 and 2017 totaled \$252,862 and \$288,448, respectively.

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements

December 31, 2018 and 2017

### Note 10: Pension Plan

The District has established and administers the Spanish Peaks Regional Health Center 403(b) Plan (the Plan), a defined contribution plan. Benefit terms may be amended by the District. For all full-time employees meeting the eligibility requirements of the Plan, the employer will make matching contributions of up to 50% of the first 6% of compensation deferred under the compensation reduction election of the employee into the Plan. Employees are permitted to make contributions to the pension plan, up to applicable Internal Revenue Code limits. Employees are immediately vested in their own contributions and earnings on those contributions. Employer contributions into the Plan are subject to a 5-year graded vesting schedule. Non-vested employer contributions are forfeited upon termination of employment. Forfeitures are used to reduce the employer contributions. Except as permitted under the Plan, distributions from an employee's account may not be made earlier than the earliest date on which the employee has severance from employment, dies, becomes disabled, or attains age 59½.

Contribution rates for plan members and the District expressed as a percentage of covered payroll were 7.91% and 2.71% for 2018 and 10.24% and 2.62% for 2017, respectively. Contributions actually made by plan members, made or accrued by the District aggregated \$573,841 and \$196,909 during 2018 and \$730,331 and \$187,026 during 2017, respectively.

### Note 11: Nursing Home Expense Reserve Account

Under the terms of the operating contract with the State of Colorado (the State), the District is required to establish and fund an expense reserve account, under control of the State, to fund operations should the State be required to assume control of the Nursing Home. The District is required to make annual payments equal to one-half of the Nursing Home's average monthly net accounts receivable balance. The annual payments are to be made until the balance in the fund equals \$660,000. The District is allowed to borrow, interest free, up to 75% of the amount in the account. The balance in the expense reserve account (net of outstanding loans) was \$257,350 at December 31, 2018 and 2017, and is included in noncurrent cash and investments (see Note 4). Accordingly, the District had net borrowings from the account of \$402,650 at December 31, 2018 and 2017. Should the State assume control of the Nursing Home, the District would be required to repay the amount borrowed.

### Note 12: Veterans Health Administration Grant Revenue

The Nursing Home receives Veterans Health Administration grant revenues as a contractor of the State of Colorado for the purpose of providing nursing home care to eligible veterans. For the years ended December 31, 2018 and 2017, such grant revenue totaled \$2,243,043 and \$1,862,670, respectively, and is recorded as other operating revenue in the accompanying financial statements.

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements

December 31, 2018 and 2017

### **Note 13: Contingencies**

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's commercial insurance. 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 loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

### **Note 14: 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 who receive less than 10% of their annual revenue in grants from all state and local governments combined. The District is of the opinion that its operations qualify for this exclusion.

### **Note 15: Condensed Combining Information**

The following tables include condensed combining balance sheet information for the Hospital and its blended component units as of December 31, 2018 and 2017:

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

	December 31, 2018				
	District	Hospital	Nursing Home	Eliminations	Totals
<b>Assets</b>					
Current assets	\$ 4,897,209	\$ 3,163,483	\$ 1,472,656	\$ (4,016,784)	\$ 5,516,564
Noncurrent cash and investments	4,089,842	-	42,725	-	4,132,567
Capital assets, net	-	6,100,153	3,318,045	-	9,418,198
<b>Total assets</b>	<u>\$ 8,987,051</u>	<u>\$ 9,263,636</u>	<u>\$ 4,833,426</u>	<u>\$ (4,016,784)</u>	<u>\$ 19,067,329</u>
<b>Liabilities</b>					
Current liabilities	\$ 63	\$ 7,002,164	\$ 261,296	\$ (4,016,784)	\$ 3,246,739
Long-term liabilities	-	3,636,464	307,662	-	3,944,126
<b>Total liabilities</b>	<u>63</u>	<u>10,638,628</u>	<u>568,958</u>	<u>(4,016,784)</u>	<u>7,190,865</u>
<b>Deferred Inflows of Resources</b>	<u>876,860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>876,860</u>
<b>Net Position</b>					
Net investment in capital assets	-	1,875,952	2,920,062	-	4,796,014
Restricted	1,757,350	-	42,725	-	1,800,075
Unrestricted	6,352,778	(3,250,944)	1,301,681	-	4,403,515
<b>Total net position</b>	<u>8,110,128</u>	<u>(1,374,992)</u>	<u>4,264,468</u>	<u>-</u>	<u>10,999,604</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 8,987,051</u>	<u>\$ 9,263,636</u>	<u>\$ 4,833,426</u>	<u>\$ (4,016,784)</u>	<u>\$ 19,067,329</u>

	December 31, 2017				
	District	Hospital	Nursing Home	Eliminations	Totals
<b>Assets</b>					
Current assets	\$ 4,083,513	\$ 3,879,775	\$ 825,873	\$ (3,666,784)	\$ 5,122,377
Noncurrent cash and investments	3,988,187	-	43,420	-	4,031,607
Capital assets, net	-	6,874,779	3,582,338	-	10,457,117
<b>Total assets</b>	<u>\$ 8,071,700</u>	<u>\$ 10,754,554</u>	<u>\$ 4,451,631</u>	<u>\$ (3,666,784)</u>	<u>\$ 19,611,101</u>
<b>Liabilities</b>					
Current liabilities	\$ 44,635	\$ 6,994,248	\$ 263,551	\$ (3,666,784)	\$ 3,635,650
Long-term liabilities	-	4,400,329	385,679	-	4,786,008
<b>Total liabilities</b>	<u>44,635</u>	<u>11,394,577</u>	<u>649,230</u>	<u>(3,666,784)</u>	<u>8,421,658</u>
<b>Deferred Inflows of Resources</b>	<u>415,231</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>415,231</u>
<b>Net Position</b>					
Net investment in capital assets	-	1,908,608	3,112,845	-	5,021,453
Restricted	1,757,350	-	43,420	-	1,800,770
Unrestricted	5,854,484	(2,548,631)	646,136	-	3,951,989
<b>Total net position</b>	<u>7,611,834</u>	<u>(640,023)</u>	<u>3,802,401</u>	<u>-</u>	<u>10,774,212</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 8,071,700</u>	<u>\$ 10,754,554</u>	<u>\$ 4,451,631</u>	<u>\$ (3,666,784)</u>	<u>\$ 19,611,101</u>

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the District and its blended component units for the years ended December 31, 2018 and 2017.

	Year Ended December 31, 2018				
	District	Hospital	Nursing Home	Eliminations	Totals
<b>Operating Revenues</b>					
Net patient service revenue	\$ -	\$ 16,077,984	\$ 9,486,956	\$ -	\$ 25,564,940
Other operating revenue	-	319,732	2,143,651	-	2,463,383
Total operating revenues	-	16,397,716	11,630,607	-	28,028,323
<b>Operating Expenses</b>					
Depreciation	-	790,112	291,303	-	1,081,415
Other operating expenses	42,746	17,439,376	9,814,662	-	27,296,784
Total operating expenses	42,746	18,229,488	10,105,965	-	28,378,199
<b>Operating Loss</b>	(42,746)	(1,831,772)	1,524,642	-	(349,876)
<b>Nonoperating Revenues, Net</b>	451,726	129,676	(6,134)	-	575,268
<b>Excess (Deficiency) of Revenues Over Expenses Before Transfers</b>	408,980	(1,702,096)	1,518,508	-	225,392
<b>Transfers</b>	89,314	967,127	(1,056,441)	-	-
<b>Change in Net Position</b>	498,294	(734,969)	462,067	-	225,392
<b>Net Position, Beginning of Year</b>	7,611,834	(640,023)	3,802,401	-	10,774,212
<b>Net Position, End of Year</b>	\$ 8,110,128	\$ (1,374,992)	\$ 4,264,468	\$ -	\$ 10,999,604

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

	Year Ended December 31, 2017				Totals
	District	Hospital	Nursing Home	Eliminations	
<b>Operating Revenues</b>					
Net patient service revenue	\$ -	\$ 14,221,755	\$ 9,251,337	\$ -	\$ 23,473,092
Other operating revenue	-	422,021	1,862,670	-	2,284,691
Total operating revenues	-	14,643,776	11,114,007	-	25,757,783
<b>Operating Expenses</b>					
Depreciation	-	891,976	315,153	-	1,207,129
Other operating expenses	6,227	16,309,850	9,683,163	-	25,999,240
Total operating expenses	6,227	17,201,826	9,998,316	-	27,206,369
<b>Operating Loss</b>	(6,227)	(2,558,050)	1,115,691	-	(1,448,586)
<b>Nonoperating Revenues (Expenses), Net</b>	534,779	266,856	8,129	-	809,764
<b>Excess (Deficiency) of Revenues Over Expenses Before Transfers</b>	528,552	(2,291,194)	1,123,820	-	(638,822)
<b>Transfers</b>	-	1,381,763	(1,381,763)	-	-
<b>Change in Net Position</b>	528,552	(909,431)	(257,943)	-	(638,822)
<b>Net Position, Beginning of Year</b>	7,083,282	269,408	4,060,344	-	11,413,034
<b>Net Position, End of Year</b>	<u>\$ 7,611,834</u>	<u>\$ (640,023)</u>	<u>\$ 3,802,401</u>	<u>\$ -</u>	<u>\$ 10,774,212</u>

The following tables include condensed combining statements of cash flows information for the District and its blended component units for the years ended December 31, 2018 and 2017.

	Year Ended December 31, 2018			
	District	Hospital	Nursing Home	Total
Net cash provided by (used in)				
Operating activities	\$ (914,377)	\$ 305,651	\$ 1,150,220	\$ 541,494
Noncapital financing activities	445,489	1,224,212	(1,038,618)	631,083
Capital and related financing activities	-	(870,871)	(122,477)	(993,348)
Investing activities	6,237	-	-	6,237
	(462,651)	658,992	(10,875)	185,466
Cash and cash equivalents, beginning of year	1,699,685	729,739	244,664	2,674,088
Cash and cash equivalents, end of year	<u>\$ 1,237,034</u>	<u>\$ 1,388,731</u>	<u>\$ 233,789</u>	<u>\$ 2,859,554</u>

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Notes to Financial Statements December 31, 2018 and 2017

	Year Ended December 31, 2017			
	District	Hospital	Nursing Home	Total
Net cash provided by (used in)				
Operating activities	\$ (915,199)	\$ (816,094)	\$ 1,507,622	\$ (223,671)
Noncapital financing activities	534,157	2,134,095	(1,358,748)	1,309,504
Capital and related financing activities	-	(606,025)	(104,418)	(710,443)
Investing activities	622	-	-	622
	(380,420)	711,976	44,456	376,012
Cash and cash equivalents, beginning of year	<u>2,080,105</u>	<u>17,763</u>	<u>200,208</u>	<u>2,298,076</u>
Cash and cash equivalents, end of year	<u>\$ 1,699,685</u>	<u>\$ 729,739</u>	<u>\$ 244,664</u>	<u>\$ 2,674,088</u>

## **Supplementary Information**

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Combining Statement of Net Position December 31, 2018

### Assets

	District	Hospital	Nursing Home	Eliminations	Totals
<b>Current Assets</b>					
Cash and cash equivalents	\$ 1,498	\$ 824,425	\$ 109,788	\$ -	\$ 935,711
Cash held for residents	-	-	81,276	-	81,276
Patient accounts receivable, net of allowance of \$302,431	-	1,810,167	891,264	-	2,701,431
Property taxes receivable	876,860	-	-	-	876,860
Due from affiliates	4,016,784	-	-	(4,016,784)	-
Supplies	-	474,201	-	-	474,201
Other current assets	2,067	54,690	390,328	-	447,085
	<u>4,897,209</u>	<u>3,163,483</u>	<u>1,472,656</u>	<u>(4,016,784)</u>	<u>5,516,564</u>
<b>Total current assets</b>					
<b>Noncurrent Cash and Investments</b>					
Internally designated	2,332,492	-	-	-	2,332,492
Assets whose use is limited					
Investments held as collateral on long-term debt	1,500,000	-	-	-	1,500,000
Held by Colorado State Treasurer	257,350	-	-	-	257,350
Cash restricted by donors	-	-	42,725	-	42,725
	<u>4,089,842</u>	<u>-</u>	<u>42,725</u>	<u>-</u>	<u>4,132,567</u>
<b>Total noncurrent cash and investments</b>					
<b>Capital Assets, Net</b>					
	<u>-</u>	<u>6,100,153</u>	<u>3,318,045</u>	<u>-</u>	<u>9,418,198</u>
<b>Total assets</b>					
	<u>\$ 8,987,051</u>	<u>\$ 9,263,636</u>	<u>\$ 4,833,426</u>	<u>\$ (4,016,784)</u>	<u>\$ 19,067,329</u>

**Huerfano County Hospital District d/b/a  
Spanish Peaks Regional Health Center  
Combining Statement of Net Position (continued)  
December 31, 2018**

**Liabilities, Deferred Inflows of  
Resources and Net Position**

	<b>District</b>	<b>Hospital</b>	<b>Nursing Home</b>	<b>Eliminations</b>	<b>Totals</b>
<b>Current Liabilities</b>					
Accounts payable	\$ 63	\$ 557,074	\$ 91,253	\$ -	\$ 648,390
Accrued expenses and other current liabilities	-	1,753,499	10,992	-	1,764,491
Current maturities of long-term debt	-	587,737	90,321	-	678,058
Estimated third-party payer settlements	-	87,070	-	-	87,070
Due to affiliates	-	4,016,784	-	(4,016,784)	-
Deposits from residents	-	-	68,730	-	68,730
Total current liabilities	63	7,002,164	261,296	(4,016,784)	3,246,739
<b>Lines of Credit, Long-term</b>	-	707,414	-	-	707,414
<b>Long-term Debt</b>	-	2,929,050	307,662	-	3,236,712
Total liabilities	63	10,638,628	568,958	(4,016,784)	7,190,865
<b>Deferred Inflows of Resources</b>					
Deferred property tax revenues	876,860	-	-	-	876,860
Total liabilities and deferred inflows of resources	876,923	10,638,628	568,958	(4,016,784)	8,067,725
<b>Net Position</b>					
Net investment in capital assets	-	1,875,952	2,920,062	-	4,796,014
Restricted	1,757,350	-	42,725	-	1,800,075
Unrestricted	6,352,778	(3,250,944)	1,301,681	-	4,403,515
Total net position	8,110,128	(1,374,992)	4,264,468	-	10,999,604
Total liabilities, deferred inflows of resources and net position	<u>\$ 8,987,051</u>	<u>\$ 9,263,636</u>	<u>\$ 4,833,426</u>	<u>\$ (4,016,784)</u>	<u>\$ 19,067,329</u>

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Combining Statement of Net Position

December 31, 2017

### Assets

	District	Hospital	Nursing Home	Eliminations	Totals
<b>Current Assets</b>					
Cash and cash equivalents	\$ 1,498	\$ 729,739	\$ 113,268	\$ -	\$ 844,505
Cash held for residents	-	-	87,976	-	87,976
Patient accounts receivable, net of allowance of \$447,986	-	2,248,136	445,971	-	2,694,107
Property taxes receivable	415,231	-	-	-	415,231
Estimated third-party payer settlements	-	286,665	-	-	286,665
Due from affiliates	3,666,784	-	-	(3,666,784)	-
Supplies	-	503,404	-	-	503,404
Other current assets	-	111,831	178,658	-	290,489
Total current assets	<u>4,083,513</u>	<u>3,879,775</u>	<u>825,873</u>	<u>(3,666,784)</u>	<u>5,122,377</u>
<b>Noncurrent Cash and Investments</b>					
Internally designated	2,230,837	-	-	-	2,230,837
Assets whose use is limited					
Investments held as collateral on long-term debt	1,500,000	-	-	-	1,500,000
Held by Colorado State Treasurer	257,350	-	-	-	257,350
Cash restricted by donors	-	-	43,420	-	43,420
Total noncurrent cash and investments	<u>3,988,187</u>	<u>-</u>	<u>43,420</u>	<u>-</u>	<u>4,031,607</u>
<b>Capital Assets, Net</b>	<u>-</u>	<u>6,874,779</u>	<u>3,582,338</u>	<u>-</u>	<u>10,457,117</u>
Total assets	<u>\$ 8,071,700</u>	<u>\$ 10,754,554</u>	<u>\$ 4,451,631</u>	<u>\$ (3,666,784)</u>	<u>\$ 19,611,101</u>

**Huerfano County Hospital District d/b/a  
Spanish Peaks Regional Health Center  
Combining Statement of Net Position (continued)  
December 31, 2017**

**Liabilities, Deferred Inflows of  
Resources and Net Position**

	District	Hospital	Nursing Home	Eliminations	Totals
<b>Current Liabilities</b>					
Accounts payable	\$ 44,635	\$ 811,082	\$ 87,273	\$ -	\$ 942,990
Accrued expenses and other current liabilities	-	1,950,540	4,488	-	1,955,028
Current maturities of long-term debt	-	565,842	83,814	-	649,656
Due to affiliates	-	3,666,784	-	(3,666,784)	-
Deposits from residents	-	-	87,976	-	87,976
Total current liabilities	44,635	6,994,248	263,551	(3,666,784)	3,635,650
<b>Lines of Credit, Long-term</b>	-	858,906	-	-	858,906
<b>Long-term Debt</b>	-	3,541,423	385,679	-	3,927,102
Total liabilities	44,635	11,394,577	649,230	(3,666,784)	8,421,658
<b>Deferred Inflows of Resources</b>					
Deferred property tax revenues	415,231	-	-	-	415,231
Total liabilities and deferred inflows of resources	459,866	11,394,577	649,230	(3,666,784)	8,836,889
<b>Net Position</b>					
Net investment in capital assets	-	1,908,608	3,112,845	-	5,021,453
Restricted	1,757,350	-	43,420	-	1,800,770
Unrestricted	5,854,484	(2,548,631)	646,136	-	3,951,989
Total net position	7,611,834	(640,023)	3,802,401	-	10,774,212
Total liabilities, deferred inflows of resources and net position	<u>\$ 8,071,700</u>	<u>\$ 10,754,554</u>	<u>\$ 4,451,631</u>	<u>\$ (3,666,784)</u>	<u>\$ 19,611,101</u>

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Combining Statement of Revenues, Expenses and Changes in Net Position Year Ended December 31, 2018

	District	Hospital	Nursing Home	Eliminations	Totals
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts of \$663,690	\$ -	\$ 16,077,984	\$ 9,486,956	\$ -	\$ 25,564,940
Other operating revenue	-	319,732	2,143,651	-	2,463,383
Total operating revenues	-	16,397,716	11,630,607	-	28,028,323
<b>Operating Expenses</b>					
Salaries, wages and employee benefits	-	11,428,982	7,081,325	-	18,510,307
Purchased services and professional fees	-	2,571,831	1,073,604	-	3,645,435
Supplies and other	42,746	3,438,563	1,659,733	-	5,141,042
Depreciation	-	790,112	291,303	-	1,081,415
Total operating expenses	42,746	18,229,488	10,105,965	-	28,378,199
<b>Operating Income (Loss)</b>	<b>(42,746)</b>	<b>(1,831,772)</b>	<b>1,524,642</b>	<b>-</b>	<b>(349,876)</b>
<b>Nonoperating Revenues (Expenses)</b>					
Property taxes	445,418	-	-	-	445,418
Investment income	6,237	-	-	-	6,237
Interest expense	-	(189,587)	(23,957)	-	(213,544)
Noncapital grants and gifts	-	319,263	17,823	-	337,086
Other	71	-	-	-	71
Total nonoperating revenues (expenses)	451,726	129,676	(6,134)	-	575,268
<b>Excess (Deficiency) of Revenues Over Expenses Before Transfers</b>	<b>408,980</b>	<b>(1,702,096)</b>	<b>1,518,508</b>	<b>-</b>	<b>225,392</b>
<b>Transfers</b>	<b>89,314</b>	<b>967,127</b>	<b>(1,056,441)</b>	<b>-</b>	<b>-</b>
<b>Increase (Decrease) in Net Position</b>	<b>498,294</b>	<b>(734,969)</b>	<b>462,067</b>	<b>-</b>	<b>225,392</b>
<b>Net Position, Beginning of Year</b>	<b>7,611,834</b>	<b>(640,023)</b>	<b>3,802,401</b>	<b>-</b>	<b>10,774,212</b>
<b>Net Position, End of Year</b>	<b>\$ 8,110,128</b>	<b>\$ (1,374,992)</b>	<b>\$ 4,264,468</b>	<b>\$ -</b>	<b>\$ 10,999,604</b>

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Combining Statement of Revenues, Expenses and Changes in Net Position Year Ended December 31, 2017

	District	Hospital	Nursing Home	Eliminations	Totals
<b>Operating Revenues</b>					
Net patient service revenue, net of provision for uncollectible accounts of \$692,662	\$ -	\$ 14,221,755	\$ 9,251,337	\$ -	\$ 23,473,092
Other operating revenue	-	422,021	1,862,670	-	2,284,691
Total operating revenues	-	14,643,776	11,114,007	-	25,757,783
<b>Operating Expenses</b>					
Salaries, wages and employee benefits	-	10,739,035	7,144,158	-	17,883,193
Purchased services and professional fees	-	2,605,528	730,971	-	3,336,499
Supplies and other	6,227	2,965,287	1,808,034	-	4,779,548
Depreciation	-	891,976	315,153	-	1,207,129
Total operating expenses	6,227	17,201,826	9,998,316	-	27,206,369
<b>Operating Income (Loss)</b>	<b>(6,227)</b>	<b>(2,558,050)</b>	<b>1,115,691</b>	<b>-</b>	<b>(1,448,586)</b>
<b>Nonoperating Revenues (Expenses)</b>					
Property taxes	515,795	-	-	-	515,795
Investment income	622	-	-	-	622
Interest expense	-	(126,570)	(14,886)	-	(141,456)
Noncapital grants and gifts	-	393,426	22,824	-	416,250
Other	18,362	-	191	-	18,553
Total nonoperating revenues (expenses)	534,779	266,856	8,129	-	809,764
<b>Excess (Deficiency) of Revenues Over Expenses Before Transfers</b>	<b>528,552</b>	<b>(2,291,194)</b>	<b>1,123,820</b>	<b>-</b>	<b>(638,822)</b>
<b>Transfers</b>	<b>-</b>	<b>1,381,763</b>	<b>(1,381,763)</b>	<b>-</b>	<b>-</b>
<b>Increase (Decrease) in Net Position</b>	<b>528,552</b>	<b>(909,431)</b>	<b>(257,943)</b>	<b>-</b>	<b>(638,822)</b>
<b>Net Position, Beginning of Year</b>	<b>7,083,282</b>	<b>269,408</b>	<b>4,060,344</b>	<b>-</b>	<b>11,413,034</b>
<b>Net Position, End of Year</b>	<b>\$ 7,611,834</b>	<b>\$ (640,023)</b>	<b>\$ 3,802,401</b>	<b>\$ -</b>	<b>\$ 10,774,212</b>

# Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center

## Budget and Actual Revenues and Expenses Year Ended December 31, 2018

	<b>Actual</b>	<b>Budget</b>	<b>Favorable (Unfavorable) Variance</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 25,564,940	\$ 26,409,606	\$ (844,666)
Other operating revenue	2,463,383	2,815,994	(352,611)
	28,028,323	29,225,600	(1,197,277)
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	18,510,307	19,324,497	814,190
Other operating expenses	9,867,892	10,916,630	1,048,738
	28,378,199	30,241,127	1,862,928
<b>Operating Income (Loss)</b>	(349,876)	(1,015,527)	665,651
<b>Nonoperating Revenue, Net</b>	575,268	414,022	161,246
<b>Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts</b>	\$ 225,392	\$ (601,505)	\$ 826,897

### **Notes 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 generally accepted accounting principles.

Appropriations are adopted by resolution in total. There were no supplemental budgets adopted during 2018.