

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**

Independent Auditor's Report and Financial Statements

December 31, 2020 and 2019

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**December 31, 2020 and 2019**

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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

We have audited the accompanying financial statements of Colorado State Veterans Nursing Home (the Nursing Home), a component unit of Huerfano County Hospital District (the District), as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Nursing Home'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 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 Colorado State Veterans Nursing Home as of December 31, 2020 and 2019, 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 as 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.

***BKD, LLP***

Colorado Springs, Colorado  
September 29, 2021

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Management's Discussion and Analysis**  
**Years Ended December 31, 2020 and 2019**

**Introduction**

This management's discussion and analysis of the financial performance of the Colorado State Veterans Nursing Home (the Nursing Home) provides an overview of the Nursing Home's financial activities for the years ended December 31, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the Nursing Home. The Nursing Home is a component unit of Huerfano County Hospital District (the District), which operates the Nursing Home and Spanish Peaks Regional Health Center (the Hospital).

**Financial Highlights**

- The average daily census decreased in 2020 to 81.19, compared with the average daily census in 2019 of 91.79. The average daily census decreased in 2019 to 91.79, compared with the average daily census in 2018 of 92.27.
- Increase in net position before transfers of \$1,205,126 in 2020 and \$1,546,545 in 2019.

**Financial Statements**

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

The *statement of net position* presents information on the Nursing Home's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may indicate whether the financial position of the Nursing Home is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net position for the year. This statement is an indication of the success of the Nursing Home's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, noncapital financing activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the Nursing Home's cash receipts and cash payments during the year.

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The Nursing Home's net position is the difference between its assets and liabilities reported in the statements of net position, as shown below:

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

	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Assets</b>			
Cash and restricted cash	\$ 2,264,270	\$ 1,649,553	\$ 233,789
Patient accounts receivable, net	451,672	659,292	891,264
Receivable from Veterans Health Administration	104,169	199,469	361,341
Other current assets	1,261,804	-	28,987
Capital assets, net	<u>3,087,252</u>	<u>3,312,556</u>	<u>3,318,045</u>
Total assets	<u><u>\$ 7,169,167</u></u>	<u><u>\$ 5,820,870</u></u>	<u><u>\$ 4,833,426</u></u>
<b>Liabilities</b>			
Current liabilities	\$ 428,756	\$ 190,648	\$ 261,296
Long-term portion of capital lease obligation	<u>97,333</u>	<u>192,270</u>	<u>307,662</u>
Total liabilities	<u>526,089</u>	<u>382,918</u>	<u>568,958</u>
<b>Net Position</b>			
Invested in capital assets, net of related debt	2,894,982	3,027,686	2,920,062
Restricted expendable	53,370	50,676	42,725
Unrestricted	<u>3,694,726</u>	<u>2,359,590</u>	<u>1,301,681</u>
Total net position	<u>6,643,078</u>	<u>5,437,952</u>	<u>4,264,468</u>
Total liabilities and net position	<u><u>\$ 7,169,167</u></u>	<u><u>\$ 5,820,870</u></u>	<u><u>\$ 4,833,426</u></u>

Cash increased 614,717 in 2020 and \$1,415,764 in 2019. Cash increased in 2020 from the receipt of COVID-19 relief funds and positive cash flows from operations. Cash increased in 2019 from positive cash flows from operations.

In 2020, patient accounts receivable and receivable from Veterans Health Administration decreased due to a decreased census. The average census decreased from 91.79 to 81.19 and the total patients from January to December decreased from 89 to 65. In 2019, patient accounts receivable and patient accounts receivable and receivable from Veterans Health Administration decreased due to a decreased census. The average census decreased from 92.27 to 91.79 and the total patients from January to December decreased from 95 to 89.

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Capital assets, net of depreciation, decreased by \$225,304 and \$5,489 during 2020 and 2019, respectively, due to depreciation in excess of additions.

In 2020, current liabilities increased by \$238,108, or 125%. Increase is a result of \$173,957 in CARES Act Provider Relief Fund distributions recorded as unearned revenue and an increase in deposits from residents of \$76,216. Provider Relief funding recorded as unearned revenue is recorded as a liability until it has been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services. In 2019, current liabilities decreased by \$70,648, or 27%, as a result of a decrease in accounts payable and accrued liabilities of \$81,504 due to the timing of payments.

Long-term portion of capital lease obligations decreased by \$94,937 and \$115,392 in 2020 and 2019, respectively, as the debt was paid.

**Operating Results and Changes in the Nursing Home's Net Position**

The Nursing Home's net position increased by \$1,205,126 in 2020, compared with an increase in 2019 of \$1,173,484 and an increase in 2018 of \$462,067. These changes in net position are made up of different components as follows:

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

	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 8,783,455	\$ 9,418,936	\$ 9,486,956
Veterans Health Administration grant revenue	<u>1,850,262</u>	<u>2,075,076</u>	<u>2,143,651</u>
Total operating revenues	<u>10,633,717</u>	<u>11,494,012</u>	<u>11,630,607</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	7,165,053	6,957,581	7,081,325
Purchased services and professional fees	938,057	1,013,643	1,073,604
Supplies and other	1,711,983	1,699,128	1,659,733
Depreciation and amortization	<u>322,909</u>	<u>287,603</u>	<u>291,303</u>
Total operating expenses	<u>10,138,002</u>	<u>9,957,955</u>	<u>10,105,965</u>
<b>Operating Income</b>	<u>495,715</u>	<u>1,536,057</u>	<u>1,524,642</u>
<b>Nonoperating Revenues (Expenses)</b>	709,411	10,488	(6,134)
<b>Transfer to Spanish Peaks Regional Health Center</b>	<u>-</u>	<u>(373,061)</u>	<u>(1,056,441)</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 1,205,126</u>	<u>\$ 1,173,484</u>	<u>\$ 462,067</u>

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The first component of the overall change in the Nursing Home'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. During 2020, the Nursing Home realized a gain from operations of \$495,715 compared with a gain from operations of \$1,536,057 in 2019 and a gain from operations of \$1,524,642 in 2018.

The primary components of the increase in net position before transfers for 2020 and 2019 are as follows:

- A decrease in operating revenues of \$860,295, or 7%, in 2020 and a decrease in operating revenues of \$136,595, or 1%, in 2019:
  - 2020 – The operating revenue decrease is a result from a decrease in census.
  - 2019 – The operating revenue decrease is a result from a decrease in census.
- An increase in operating expenses of \$180,047, or 2%, in 2020 and a decrease of \$148,010, or 1%, in 2019:
  - 2020 – This increase is due to an increase in salaries and wages from a 2% merit adjustment and additional COVID-19 related pay.
  - 2019 – This decrease is due to the decrease/elimination of contract staff for resident care and the salary savings for the vacant Nursing Home administrator position.
- An increase in net nonoperating revenues of \$698,923, or 6,664%, in 2020 and an increase of \$16,622, or 271%, in 2019:
  - 2020 –The increase in from COVID-19 related funding. Noncapital grants and gifts within nonoperating revenues includes \$607,930 in CARES Act Provider Relief Fund distributions recognized.
  - 2019 –The increase in miscellaneous grant funds and decrease in interest expense.

**The Nursing Home's Cash Flows**

Changes in the Nursing Home's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2020, 2019 and 2018.

**Capital Assets and Debt Administration**

At December 31, 2020 and 2019, the Nursing Home had \$3,087,252 and \$3,312,556, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2020 and 2019, the Nursing Home acquired capital assets of \$97,605 and \$282,114, respectively. As of December 31, 2020 and 2019, the Nursing Home had a capital lease obligation of \$192,270 and \$284,870, respectively (see further information in Note 6 to the financial statements).

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**Other Economic Factors**

A change in population of Veterans, specifically WWII, has presented a challenge to the census of the Nursing Home. Declining admissions, as well as those residents who have resided in the Nursing Home and have passed away, are impacting census. In addition, younger Veterans who have long-term care needs, but have symptoms and/or a diagnosis that requires more advanced behavior/mental health care are creating complications in the acceptance of those Veterans. With the ongoing requirement that the Veterans Health Administration requires the population of Veterans in the Nursing Home to be at least 75%, there is an inability to bring in non-Veteran related residents; *i.e.*, spouses, widows, Gold Star Parents.

Recent demographic studies have indicated that the aged population is increasing in Huerfano County which means that the number of aging veterans is also increasing in the local area. This trend combined with renewed marketing efforts had enabled the Nursing Home to maintain a relatively consistent resident census of around 90 until new admissions were limited due to COVID-19. There is an increasing demand by the senior community for single occupancy rooms. The Nursing Home is currently reviewing the feasibility of converting existing semi-private rooms or constructing additional private rooms. Management believes that these factors, combined with program enhancements discussed below, will enable the Nursing Home to maintain or increase current census levels. However, the ongoing COVID-19 pandemic continues to affect the economics of the Nursing Home.

**Contacting the Nursing Home's Financial Management**

This financial report is designed to provide a general overview and accountability for the monies received by the Nursing Home for patients, suppliers, taxpayers and creditors. If you have any questions about this report or need additional financial information, contact District Administration at 719.738.4500.

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Statements of Net Position**  
**December 31, 2020 and 2019**

**Assets**

	<u>2020</u>	<u>2019</u>
<b>Current Assets</b>		
Cash	\$ 2,057,377	\$ 1,527,711
Cash held for residents	153,523	71,166
Patient accounts receivable, net of allowance; 2020 - \$0 and 2019 - \$24,060	451,672	659,292
Due from affiliates	1,261,804	-
Receivable from Veterans Health Administration	<u>104,169</u>	<u>199,469</u>
Total current assets	<u>4,028,545</u>	<u>2,457,638</u>
<b>Noncurrent Cash</b>		
Cash restricted by donors	53,370	50,676
<b>Capital Assets, Net</b>	<u>3,087,252</u>	<u>3,312,556</u>
Total assets	<u>\$ 7,169,167</u>	<u>\$ 5,820,870</u>

**Liabilities and Net Position**

<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 6,339	\$ 20,741
Current portion of capital lease obligation	94,937	92,600
Unearned revenue	173,957	-
Deposits from residents	<u>153,523</u>	<u>77,307</u>
Total current liabilities	428,756	190,648
<b>Capital Lease Obligation</b>	<u>97,333</u>	<u>192,270</u>
Total liabilities	<u>526,089</u>	<u>382,918</u>
<b>Net Position</b>		
Invested in capital assets, net of related debt	2,894,982	3,027,686
Restricted expendable	53,370	50,676
Unrestricted	<u>3,694,726</u>	<u>2,359,590</u>
Total net position	<u>6,643,078</u>	<u>5,437,952</u>
Total liabilities and net position	<u>\$ 7,169,167</u>	<u>\$ 5,820,870</u>

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**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2020 - \$14,639 and 2019 - \$23,769	\$ 8,783,455	\$ 9,418,936
Veterans Health Administration grant revenue	1,850,262	2,075,076
Total operating revenues	10,633,717	11,494,012
<b>Operating Expenses</b>		
Salaries, wages and employee benefits	7,165,053	6,957,581
Purchased services and professional fees	938,057	1,013,643
Supplies and other	1,711,983	1,699,128
Depreciation	322,909	287,603
Total operating expenses	10,138,002	9,957,955
<b>Operating Income</b>	495,715	1,536,057
<b>Nonoperating Revenues (Expenses)</b>		
Interest expense	-	(9,552)
Noncapital grants and gifts	704,225	19,511
Other	5,186	529
Total nonoperating revenues (expenses)	709,411	10,488
<b>Increase in Net Position Before Transfers</b>	1,205,126	1,546,545
<b>Transfer to Spanish Peaks Regional Health Center</b>	-	(373,061)
<b>Increase in Net Position</b>	1,205,126	1,173,484
<b>Net Position, Beginning of Year</b>	5,437,952	4,264,468
<b>Net Position, End of Year</b>	\$ 6,643,078	\$ 5,437,952

**Colorado State Veterans Nursing Home**  
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**Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 8,991,075	\$ 9,650,908
Payments to suppliers and contractors	(2,664,442)	(2,794,275)
Payments to employees	(7,165,053)	(6,957,581)
Other receipts, net	<u>1,541,861</u>	<u>2,274,512</u>
Net cash provided by operating activities	<u>703,441</u>	<u>2,173,564</u>
<b>Noncapital Financing Activities</b>		
Transfer to Spanish Peaks Regional Health Center	-	(373,061)
Noncapital grants and gifts	96,295	19,511
Other	<u>5,186</u>	<u>529</u>
Net cash provided by (used in) noncapital financing activities	<u>101,481</u>	<u>(353,021)</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(97,605)	(282,114)
Repayment of capital lease obligation	(92,600)	(113,113)
Interest paid	<u>-</u>	<u>(9,552)</u>
Net cash used in capital and related financing activities	<u>(190,205)</u>	<u>(404,779)</u>
<b>Increase in Cash and Restricted Cash</b>	614,717	1,415,764
<b>Cash and Restricted Cash, Beginning of Year</b>	<u>1,649,553</u>	<u>233,789</u>
<b>Cash and Restricted Cash, End of Year</b>	<u>\$ 2,264,270</u>	<u>\$ 1,649,553</u>

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**Statements of Cash Flows (continued)**  
**Years Ended December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Reconciliation of Cash and Restricted Cash to the Statements of Net Position</b>		
Cash	\$ 2,057,377	\$ 1,527,711
Cash held for residents	153,523	71,166
Cash restricted by donors	53,370	50,676
Total cash and restricted cash	\$ 2,264,270	\$ 1,649,553
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 495,715	\$ 1,536,057
Depreciation	322,909	287,603
Provision for uncollectible accounts	14,639	23,769
Changes in operating assets and liabilities		
Patient accounts receivable	192,981	208,203
Receivable from Veterans Health Administration	95,300	161,872
Other receivables	-	28,987
Accounts payable and accrued liabilities	(14,402)	(81,504)
Deposits from residents	76,216	8,577
Net cash provided by operating activities	\$ 703,441	\$ 2,173,564

**Colorado State Veterans Nursing Home**  
**(A Component Unit of Huerfano County Hospital District)**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

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

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

Colorado State Veterans Nursing Home (the Nursing Home) is a 120-bed nursing facility owned by the state of Colorado and operated by the Huerfano County Hospital District d/b/a Spanish Peaks Regional Health Center (the District). The Nursing Home is considered to be a component unit of the District and is included as a blended component unit in the District's financial statements. The Nursing Home is located adjacent to the Spanish Peaks Regional Health Center (the Hospital) in Walsenburg, Colorado. The Hospital is also operated by the District.

In November 1993, the District entered into an operating contract 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.

Expenditures made in excess of revenues earned by the Nursing Home are the responsibility of the District. Thus, losses, if any, of the Nursing Home are funded by the District.

***Basis of Accounting and Presentation***

The financial statements of the Nursing Home have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities 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) and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Nursing Home first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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***Patient Accounts Receivable***

The Nursing Home reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Nursing Home provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***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 Nursing Home:

Buildings and leasehold improvements	10 – 40 years
Equipment	3 – 10 years

***Capital and Lease Asset Impairment***

The Nursing Home evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2020 and 2019.

***Risk Management***

The Nursing Home 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 accident 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.

***Net Position***

Net position of the Nursing Home is classified in three components on its statements of net position.

- 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.

**Colorado State Veterans Nursing Home**  
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**Notes to Financial Statements**

**December 31, 2020 and 2019**

- Restricted expendable 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 Nursing Home, 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 Nursing Home has agreements with third-party payers that provide for payments to the Nursing Home 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 Nursing Home provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

***Income Taxes***

As an essential government function of the County, the Nursing Home 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 Nursing Home 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 Hospital 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 September 29, 2021, which is the date the financial statements were available to be issued.

**Colorado State Veterans Nursing Home**  
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**Note 2: Net Patient Service Revenue**

The Nursing Home has agreements with third-party payers that provide for payments to the Nursing Home at amounts different from its established rates. Approximately 50% and 52% of net patient service revenues are from participation in the Medicaid program for each of the years ended December 31, 2020 and 2019, respectively. Nursing Home services rendered to Medicaid program beneficiaries are paid at a prospectively determined per diem rate. The Nursing Home is reimbursed at a base rate with final settlement determined after submission of annual cost reports by the Nursing Home and audit adjustments thereof by the Medicaid contracted auditors.

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). The impact to the financials was \$0 in CHASE fee expenses for December 31, 2020 and 2019, and approximately \$407,000 and \$641,000 in supplemental payments included in net patient service revenue for December 31, 2020 and 2019, respectively.

**Note 3: Patient Accounts Receivable**

The Nursing Home grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2020 and 2019 consisted of:

	<b>2020</b>	<b>2019</b>
Medicaid	\$ 225,174	\$ 343,346
Veterans Health Administration	215,667	286,280
Patients	10,831	53,726
	451,672	683,352
Less allowance for contractuels and uncollectible accounts	-	(24,060)
	<b>\$ 451,672</b>	<b>\$ 659,292</b>

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**Note 4: Deposits and Investments**

***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 Nursing Home'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 deposits accounts over the FDIC limit that is not insured is covered by collateral pledged by the financial institution in accordance with the PDPA.

At December 31, 2020 and 2019, respectively, \$1,875,375 and \$1,294,322 of the Nursing Home's bank balances of \$2,289,137 and \$1,653,882 were exposed to custodial credit risk as follows:

	<b>2020</b>	<b>2019</b>
Insured (FDIC) or collateralized with securities held by the Nursing Home	\$ 413,762	\$ 359,560
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Nursing Home's name	1,875,375	1,294,322
	\$ 2,289,137	\$ 1,653,882

***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. As of December 31, 2020 and 2019, the Nursing Home had no investments.

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**Note 5: Capital and Lease Assets**

Capital assets activity for the years ended December 31, 2020 and 2019 were:

	<b>2020</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Buildings and leasehold improvements	\$ 11,600,696	\$ -	\$ -	\$ -	\$ 11,600,696
Equipment	1,416,505	87,597	-	-	1,504,102
Construction in progress	-	10,008	-	-	10,008
	<u>13,017,201</u>	<u>97,605</u>	<u>-</u>	<u>-</u>	<u>13,114,806</u>
Less accumulated depreciation					
Buildings and leasehold improvements	8,538,485	253,573	-	-	8,792,058
Equipment	1,166,160	69,336	-	-	1,235,496
	<u>9,704,645</u>	<u>322,909</u>	<u>-</u>	<u>-</u>	<u>10,027,554</u>
Capital assets, net	<u>\$ 3,312,556</u>	<u>\$ (225,304)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,087,252</u>
	<b>2019</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Buildings and leasehold improvements	\$ 11,502,482	\$ 98,214	\$ -	\$ -	\$ 11,600,696
Equipment	1,232,605	183,900	-	-	1,416,505
	<u>12,735,087</u>	<u>282,114</u>	<u>-</u>	<u>-</u>	<u>13,017,201</u>
Less accumulated depreciation					
Buildings and leasehold improvements	8,289,217	249,268	-	-	8,538,485
Equipment	1,127,825	38,335	-	-	1,166,160
	<u>9,417,042</u>	<u>287,603</u>	<u>-</u>	<u>-</u>	<u>9,704,645</u>
Capital assets, net	<u>\$ 3,318,045</u>	<u>\$ (5,489)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,312,556</u>

**Note 6: Capital Lease Obligation**

The Nursing Home is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at December 31, 2020 and 2019, totaled \$1,133,927, and accumulated depreciation of \$762,878 and \$711,419, respectively.

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The following is a summary of capital lease obligation transactions for the Nursing Home for the years ended December 31:

		<b>2020</b>				
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt						
	Capital lease obligations	<u>\$ 284,870</u>	<u>\$ -</u>	<u>\$ (92,600)</u>	<u>\$ 192,270</u>	<u>\$ 94,937</u>
		<b>2019</b>				
		<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt						
	Capital lease obligations	<u>\$ 397,983</u>	<u>\$ -</u>	<u>\$ (113,113)</u>	<u>\$ 284,870</u>	<u>\$ 92,600</u>

The following is a schedule by year of future minimum lease payments under the capital lease as of December 31, 2020:

<b>Year Ending December 31,</b>	
2021	\$ 98,858
2022	98,859
2023	<u>154</u>
Total minimum lease payments	197,871
Less amount representing interest	<u>5,601</u>
Present value of future minimum lease payments	<u>\$ 192,270</u>

**Note 7: Restricted Net Position**

Restricted net position consists of assets restricted for the purpose of resident needs. Restricted net position totaled \$53,370 and \$50,676 at December 31, 2020 and 2019, respectively.

**Note 8: Related-party Transactions**

During the years ended December 31, 2020 and 2019, all amounts transferred and allocations of expenses between the Hospital and the Nursing Home are recorded as transfers to the Hospital and totaled \$0 and \$373,061, respectively. During the years ended December 31, 2020 and 2019, the Nursing Home recorded receivables for payments received by the Hospital on behalf of the Nursing Home for general and targeted Provider Relief Fund distributions and for patient payments and recorded payables for expenses paid by the Hospital on behalf of the Nursing Home. During

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the years ended December 31, 2020 and 2019, the balances are recorded as due from affiliate and totaled \$1,261,804 and \$0, respectively.

**Note 9: 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 five-year graded vesting schedule. Nonvested 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 5.49% and 1.58% for 2020 and 4.58% and 1.65% for 2019, respectively. Contributions actually made by plan members and made or accrued by the District aggregated \$833,551 and \$239,426 during 2020 and \$618,714 and \$222,139 during 2019, respectively. Of the amounts contributed or accrued by the District, \$126,296 and \$45,676 were allocated to accounts for the benefit of Nursing Home employees in the years ended December 31, 2020 and 2019, respectively.

**Note 10: Nursing Home Expense Reserve Account**

Under the terms of the operating contract with the state of Colorado, 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 \$270,204 at December 31, 2020 and 2019, and is included in noncurrent cash and investments in the District financial statements. Accordingly, the District had net borrowings from the account of \$389,796 at December 31, 2020 and 2019. Should the state assume control of the Nursing Home, the District would be required to repay the amount borrowed.

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**Note 11: 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, 2020 and 2019, such grant revenue totaled \$1,850,262 and \$2,075,076, respectively, and is recorded as operating revenue in the accompanying financial statements.

**Note 12: Medical Malpractice Claims**

The Nursing Home purchases medical malpractice insurance under a claims-made (or occurrence-basis) policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Nursing Home's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Note 13: Contingencies**

In the normal course of business, the Nursing Home 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 Nursing Home's commercial insurance. The Nursing Home 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: COVID-19 Pandemic and CARES Act Funding**

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments re-imposed certain restrictions due to increasing rates of COVID-19 cases prior to the widespread availability of a vaccine.

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The Nursing Home's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Nursing Home has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business, including the following:

- Implementation of targeted cost reduction initiatives;
- Review of certain planned projects and capital expenditures;
- Creation of a long-term master facility plan to accommodate changing market expectations;

In addition, the Nursing Home received \$781,887 in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act).

The extent of the COVID-19 pandemic's adverse effect on the Nursing Home's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Nursing Home's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Nursing Home cannot estimate the length or severity of the effect of the pandemic on the Nursing Home's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

***Provider Relief Fund***

During the year ended December 31, 2020, the Nursing Home received \$781,887 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Nursing Home is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The Nursing Home is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Nursing Home's operating revenues and expenses through December 31, 2020, the Nursing Home recognized \$607,930, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue – noncapital grants

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and gifts in our statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions are recorded as part of unearned revenue in the accompanying statements of net position.

The Nursing Home will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Nursing Home's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the Nursing Home is unable to attest to or comply with current or future terms and conditions the Nursing Home's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Nursing Home's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.