St. Vincent General Hospital District

Basic Financial Statements and
Independent Auditors' Report

December 31, 2017 and 2016

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

St. Vincent General Hospital District
Table of Contents

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
St. Vincent General Hospital District
Leadville, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of St. Vincent General Hospital District (the District), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

12015 East Main Avenue | Spokane Valley, WA 99206 | 509.242.0874 | www.dzacpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of December 31, 2017 and 2016, 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 Matter

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of budget and actual revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of budget and actual revenues and expenses 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of budget and actual revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
June 19, 2018

St. Vincent General Hospital District
Statements of Net Position
December 31, 2017 and 2016

ASSETS	**2017**	**2016**
Current assets		
Cash and cash equivalents	**$ 269,689**	$ 64,777
Receivables:		
Patient accounts, net of estimated uncollectibles of approximately $1,250,000 and $1,400,000, respectively	**971,226**	854,129
Property taxes	**941,694**	906,336
Estimated third-party payor settlements	**671,000**	1,082,000
Inventories	**118,402**	75,597
Prepaid expenses	**117,854**	86,727
Other current assets	**94,053**	63,438
Total current assets	**3,183,918**	3,133,004
Noncurrent assets		
Cash and cash equivalents restricted for debt service	**517,398**	348,796
Capital assets, net	**3,039,363**	3,100,999
Total noncurrent assets	**3,556,761**	3,449,795
Total assets	**$ 6,740,679**	$ 6,582,799
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current liabilities		
Accounts payable	**$ 643,731**	$ 663,409
Capital accounts payable	**-**	327,109
Accrued compensation and related liabilities	**293,815**	421,619
Estimated third-party payor settlements payable	**217,000**	-
Current maturities of long-term debt	**551,763**	448,922
Current maturities of electronic health records incentives recoupment	**-**	179,431
Total current liabilities	**1,706,309**	2,040,490
Long-term debt, net of current maturities	**753,163**	953,163
Electronic health records incentives recoupment, net of current maturities	**-**	127,591
Total liabilities	**2,459,472**	3,121,244
Deferred inflows of resources, property tax levy	**933,714**	890,000
Total liabilities and deferred inflows of resources	**3,393,186**	4,011,244
Net position		
Net investment in capital assets	**1,734,437**	1,371,805
Unrestricted	**1,095,658**	850,954
Restricted for debt service	**517,398**	348,796
Total net position	**3,347,493**	2,571,555
Total liabilities, deferred inflows of resources, and net position	**$ 6,740,679**	$ 6,582,799

See accompanying notes to basic financial statements.

St. Vincent General Hospital District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating revenues		
Net patient service revenue, net of provision for bad debts of approximately $878,000 and $822,000, respectively	**$ 7,219,718**	$ 6,631,473
Electronic health records incentive	**462,074**	-
County ambulance services contract	**750,000**	750,000
Other	**137,751**	29,743
Total operating revenues	**8,569,543**	7,411,216
Operating expenses		
Salaries and wages	**4,189,934**	3,783,728
Employee benefits	**967,922**	721,761
Professional fees and other purchased services	**1,879,003**	2,230,138
Supplies	**448,876**	431,101
Depreciation and amortization	**392,900**	496,187
Insurance	**81,682**	90,433
Utilities	**162,177**	153,226
Repairs and maintenance	**232,332**	298,140
Leases and rentals	**72,288**	79,285
Provider fees	**293,690**	204,832
Other	**307,111**	265,237
Total operating expenses	**9,027,915**	8,754,068
Operating loss	**(458,372)**	(1,342,852)
Nonoperating revenues (expenses)		
Taxation for operations	**949,006**	878,946
Noncapital contributions	**181,310**	317,930
Other nonoperating revenue	**177,938**	40,615
Interest expense	**(107,957)**	(149,337)
Debt issuance costs	**-**	(361,567)
Total nonoperating revenues (expenses), net	**1,200,297**	726,587
Excess of revenues (expenses) before capital grants	**741,925**	(616,265)
Capital grants	**34,013**	17,388
Change in net position	**775,938**	(598,877)
Net position, beginning of year	**2,571,555**	3,170,432
Net position, end of year	**$ 3,347,493**	$ 2,571,555

See accompanying notes to basic financial statements.

St. Vincent General Hospital District
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Receipts from and on behalf of patients	**$ 7,730,621**	$ 6,451,773
Electronic health records incentive payment	**302,405**	71,300
Receipts from county ambulance services contract	**750,000**	750,000
Other receipts	**107,136**	44,914
Payments to and on behalf of employees	**(5,285,660)**	(4,328,425)
Payments to suppliers and contractors	**(3,050,859)**	(3,427,133)
Net cash provided by (used in) operating activities	**553,643**	(437,571)
Cash flows from noncapital financing activities		
Taxation for operations	**957,362**	862,610
Contributions	**-**	6,303
Other receipts	**177,005**	37,285
Principal paid on electronic health records incentives recoupment	**(147,353)**	(178,946)
Interest paid on electronic health records incentives recoupment	**(17,970)**	(43,431)
Net cash provided by noncapital financing activities	**969,044**	683,821
Cash flows from capital and related financing activities		
Purchase of capital assets	**(658,373)**	(63,167)
Proceeds from capital grants	**34,013**	17,388
Proceeds from issuance of long-term debt	**440,000**	-
Principal paid on long-term debt	**(875,759)**	(464,878)
Interest paid on long-term debt	**(89,987)**	(105,906)
Debt issuance costs	**-**	(201,783)
Net cash used in capital and related financing activities	**(1,150,106)**	(818,346)
Cash flows from investing activities		
Investment income	**933**	3,330
Net increase (decrease) in cash and cash equivalents	**373,514**	(568,766)
Cash and cash equivalents, beginning of year	**413,573**	982,339
Cash and cash equivalents, end of year	**$ 787,087**	$ 413,573

See accompanying notes to basic financial statements.

St. Vincent General Hospital District
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

		2017		2016
Reconciliation of cash and cash equivalents to the statements of net position				
Cash and cash equivalents in current assets	**$**	**269,689**	$	64,777
Cash and cash equivalents restricted for debt service		**517,398**		348,796
	$	**787,087**	$	413,573
Reconciliation of operating loss to net cash provided by (used in) operating activities				
Operating loss	**$**	**(458,372)**	$	(1,342,852)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization		**392,900**		496,187
Provision for bad debts		**877,810**		822,242
Electronic health records incentives recoupment		**(159,669)**		-
Decrease (increase) in assets:				
Patient accounts receivable, net		**(994,907)**		(558,178)
Estimated third-party payor settlements		**411,000**		(443,764)
Electronic health records receivable		**-**		71,300
Inventories		**(42,805)**		(833)
Prepaid expenses		**(31,127)**		4,456
Other current assets		**(30,615)**		15,171
Increase (decrease) in liabilities:				
Accounts payable		**500,232**		321,636
Accrued compensation and related liabilities		**(127,804)**		177,064
Estimated third-party payor settlements payable		**217,000**		-
Net cash provided by (used in) operating activities	**$**	**553,643**	$	(437,571)

Noncash Financing Activities

During the year ended December 31, 2017, the District entered into a financing agreement for outstanding invoices related to construction in progress in the amount of $338,600.

Centura Health forgave the District’s accounts payable in the amount of $181,310 and $311,827 as of December 31, 2017 and 2016, respectively, as described in Note 9.

During the year ended December 31, 2017, the District extinguished debt related to the Medicare electronic health records incentive recoupment in the amount of $307,022, $159,669 of which was a reduction of the $462,074 electronic health records incentive payment received in 2017.

See accompanying notes to basic financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

St. Vincent General Hospital District (the District) operates a critical access hospital licensed for 25 beds and a provider-based clinic in Leadville, Colorado. The District was created in 1988 as a political subdivision of the state of Colorado for the sole purpose of operating St. Vincent General Hospital. As a political subdivision of the state of Colorado, the District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of the state law. The District provides healthcare services to Lake County. The District is governed by a Board of Directors consisting of five members elected by the residents of the District. The District is not a component unit of another government entity.

b. Summary of Significant Accounting Policies

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.

Enterprise fund accounting – The District's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit of the related expense.

Inventories – Supply inventories are stated at cost, determined using the first-in, first-out method. Inventories consist of pharmaceutical, medical, and other supplies used in the operations of the District.

Capital assets – It is the District's policy to capitalize property and equipment over $5,000 and a useful life of at least three years; lesser amounts are expensed. Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets other than land are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense.

Estimated useful lives are as follows:

Land improvements	7 to 20 years
Buildings and improvements	5 to 40 years
Major movable equipment	3 to 26 years
Fixed equipment	5 to 20 years

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Compensated absences – The District's policies permit most employees to accumulate vacation benefits that may be realized as paid time off. The expense and the related liability are recognized as vacation benefits are earned. Compensated absence liabilities are computed using the regular pay rate in effect at the statement of net position dates plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Net position – Net position has three classifications. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted.*

Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities, associated with providing healthcare services — the District's principle activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Grants and contributions – From time to time, the District receives grants from the state of Colorado and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses. Grants that are restricted for specific projects or purposes related to the District's operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

Reclassifications – Certain items included in the accompanying 2016 financial statements have been reclassified to conform to the 2017 presentation, with no effect on the previously reported change in net position.

Subsequent events – The District has evaluated subsequent events and transactions through June 19, 2018, the date on which the financial statements were available to be issued.

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements – In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, replacing the requirements of GASB Statement No. 45. The new guidance will be effective for the District's year ending December 31, 2018. GASB Statement No. 75 requires governmental entities to report a liability on the financial statement of other postemployment benefits (OPEB), and provides additional requirements for note disclosures and required supplementary information, including a schedule comparing a government entity's actual OPEB contributions to its contribution requirements. The District has not elected to implement this statement early; however, management is currently evaluating the impact of this statement in the year of adoption.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires a government entity with legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when a liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event obligating a government entity to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The new guidance is effective for the District's year ending December 31, 2019. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In March 2017, the GASB issued Statement No. 85, *Omnibus*, which addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The new guidance is effective for the District's year ending December 31, 2018, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt as those requirements for when new debt is issued to provide for refunding. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. This statement also specifies the treatment of any remaining bond insurance costs on any extinguished debt. The new guidance is effective for the District's year ending December 31, 2018, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

1. **Reporting Entity and Summary of Significant Accounting Policies (continued):**

   b. **Summary of Significant Accounting Policies (continued)**

   In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The new guidance is effective for the District's year ending December 31, 2020, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

   In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the District's year ending December 31, 2019, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

2. **Bank Deposits and Investments:**

   Deposits – Under Colorado State statute, the Commercial Bank Code Public Deposit Protection Act of 1989 (PDPA) protects public funds held in bank deposit accounts in the event that the bank holding the public deposits becomes insolvent. As defined by the PDPA, deposit accounts include checking, savings, bank money market, and certificate of deposit accounts. Banks must deliver bank assets (usually securities) to a third-party institution, which are pledged to the Colorado Division of Banking, for all Colorado public depositors.

   The District's deposits are entirely covered by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Any excess of deposits over the FDIC limit not insured is covered by collateral pledged by the financial institution in accordance with the PDPA.

   Custodial credit risk is the risk that, in the event of a depository institution failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk.

2. Bank Deposits and Investments (continued):

Investments – Colorado State statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, banker's acceptance notes, commercial paper, repurchase agreements, money market funds, and guaranteed investment contracts. All investments must be held by the District, in its name, or in custody of a third party on behalf of the local government. The District had no investments at December 31, 2017 or 2016.

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts. The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from prior years. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the District were as follows:

	2017	**2016**
Receivable from patients and their insurance carriers	**$ 1,930,791**	$ 2,048,999
Receivable from Medicare	**170,849**	134,883
Receivable from Medicaid	**122,011**	70,484
Total patient accounts receivable	**2,223,651**	2,254,366
Less allowance for uncollectible accounts	**(1,252,425)**	(1,400,237)
Patient accounts receivable, net	**$ 971,226**	$ 854,129

4. Property Taxes:

The Lake County Treasurer acts as an agent to assess and collect property taxes levied in the county for all taxing authorities. Property taxes are levied and assessed on December 22 of the prior year on property values assessed as of May 1 of the prior year. Taxes are due in two equal amounts by February 28 and June 15, or all may be paid by April 30. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the District. The assessed property is subject to lien on the levy date, therefore, no allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates.

For 2017, the District's regular tax levy was $9.106 per $1,000 on a total assessed valuation of $98,454,757, for a total regular levy of $896,529.

For 2016, the District's regular tax levy was $9.106 per $1,000 on a total assessed valuation of $96,498,822, for a total regular levy of $878,718.

5. Capital Assets:

Capital asset additions, retirements, transfers, and balances reported by the District were as follows:

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
Capital assets not being depreciated					
Construction in progress	$ 424,462	$ 274,317	$ -	$ (39,489)	**$ 659,290**
Total capital assets not being depreciated	424,462	274,317	-	(39,489)	**659,290**
Capital assets being depreciated					
Land improvements	142,745	-	-	175	**142,920**
Buildings and improvements	6,250,184	35,009	-	(103,860)	**6,181,333**
Major movable equipment	5,299,979	24,051	(104,336)	138,443	**5,358,137**
Fixed equipment	368,463	-	-	4,731	**373,194**
Total capital assets being depreciated	12,061,371	59,060	(104,336)	39,489	**12,055,584**
Less accumulated depreciation for					
Land improvements	141,092	167	-	813	**142,072**
Buildings and improvements	4,097,236	136,074	-	(13,048)	**4,220,262**
Major movable equipment	4,821,182	243,760	(102,223)	15,904	**4,978,623**
Fixed equipment	325,324	12,899	-	(3,669)	**334,554**
Total accumulated depreciation	9,384,834	392,900	(102,223)	-	**9,675,511**
Total capital assets being depreciated, net	2,676,537	(333,840)	(2,113)	39,489	**2,380,073**
Capital assets, net	**$ 3,100,999**	**$ (59,523)**	**$ (2,113)**	**$ -**	**$ 3,039,363**

5. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances reported by the District were as follows:

	Balance December 31, 2015	Additions	Retirements	Transfers	Balance December 31, 2016
Capital assets not being depreciated					
Construction in progress	$ -	$ 424,462	$ -	$ -	**$ 424,462**
Total capital assets not being depreciated	-	424,462	-	-	**424,462**
Capital assets being depreciated					
Land improvements	142,745	-	-	-	**142,745**
Buildings and improvements	6,250,184	-	-	-	**6,250,184**
Major movable equipment	5,420,536	5,303	(125,860)	-	**5,299,979**
Fixed equipment	368,463	-	-	-	**368,463**
Total capital assets being depreciated	12,181,928	5,303	(125,860)	-	**12,061,371**
Less accumulated depreciation for					
Land improvements	140,925	167	-	-	**141,092**
Buildings and improvements	3,962,329	134,907	-	-	**4,097,236**
Major movable equipment	4,598,828	348,214	(125,860)	-	**4,821,182**
Fixed equipment	312,425	12,899	-	-	**325,324**
Total accumulated depreciation	9,014,507	496,187	(125,860)	-	**9,384,834**
Total capital assets being depreciated, net	3,167,421	(490,884)	-	-	**2,676,537**
Capital assets, net	**$ 3,167,421**	**$ (66,422)**	**$ -**	**$ -**	**$ 3,100,999**

Construction in progress at December 31, 2017, consisted of architectural and design costs for the construction of a new hospital building. The estimated completion cost of the building is $22,000,000, and the estimated completion date will be in 2020. The District is currently seeking financing for the project.

6. Healthcare Self-insurance:

The District partially self-insures the cost of employee healthcare benefits as it purchases annual stop-loss insurance coverage for all claims in excess of $35,000 per claim. Liabilities on the statements of net position include an accrual for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The District’s self-insurance is recorded in accrued compensation and related liabilities.

6. Healthcare Self-insurance (continued):

Changes in the District's claim liability are as follows:

		2017		2016
Claim liability, beginning of year	**$**	**117,011**	$	40,000
Current year claims and changes in estimates		**616,610**		302,615
Claims payments		**(703,621)**		(225,604)
Claim liability, end of year	**$**	**30,000**	$	117,011

7. Long-term Debt and Other Noncurrent Liabilities:

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

	Balance December 31, 2016	Additions	Reductions	Balance December 31, 2017	Amounts Due within One Year
Series 1999 Hospital Revenue Bonds	$ 1,370,000	$ -	$ (430,000)	$ 940,000	**$ 455,000**
Note payable	-	338,600	-	338,600	**83,600**
Capital lease obligations	32,085	-	(5,759)	26,326	**13,163**
Tax anticipation note	-	440,000	(440,000)	-	-
Medicare electronic health records incentives recoupment	307,022	-	(307,022)	-	-
Total long-term debt and other noncurrent liabilities	$ 1,709,107	$ 778,600	$ (1,182,781)	$ 1,304,926	**$ 551,763**

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Amounts Due within One Year
Series 1999 Hospital Revenue Bonds	$ 1,775,000	$ -	$ (405,000)	$ 1,370,000	**$ 430,000**
Capital lease obligations	52,474	39,489	(59,878)	32,085	**18,922**
Medicare electronic health records incentives recoupment	485,968	-	(178,946)	307,022	**179,431**
Total long-term debt and other noncurrent liabilities	$ 2,313,442	$ 39,489	$ (643,824)	$ 1,709,107	**$ 628,353**

7. Long-term Debt and Other Noncurrent Liabilities (continued):

The terms and due dates of the District's long-term debt and other noncurrent liabilities were as follows:

- The Series 1999 Hospital Revenue Bonds ("Series 1999 Bonds") were issued on June 1, 1999, in the amount of $6,005,000 to finance the equipping, expanding, and renovating of the District's facilities. The bonds mature December 1, 2019. Interest is payable semiannually on June 1 and December 1 at 6.0 percent. Principal is due on December 1 of each year.

  The bonds are subject to mandatory sinking fund redemptions on each December 1 and are subject to early redemption at the option of the District. The bonds are secured by net pledged revenues, as defined, and require the establishment of a reserve fund. The reserve fund was depleted in 2015 and was replenished as of December 31, 2017. In connection with the bonds, the District is required, among other covenants, to maintain a debt service coverage ratio of 1.25 to 1.

- In 2015, the Centers for Medicare and Medicaid Services notified the District that it was recouping $765,964 of prior electronic health records meaningful use incentive payments. The District repaid the remaining balance on this recoupment in 2017.

- The District agreed upon a payment schedule with an architecture firm for outstanding invoices in the amount of $338,600. An initial lump sum payment of $38,600 was paid on March 1, 2018. The remaining balance will be paid in $5,000 monthly installments through March 2023. Principal payments are due by the 15th of each month. No interest is to be imputed on the balance owed.

- In 2017, the District issued a tax anticipation note payable to borrow $440,000 from its 2017 property tax revenue. The note bore interest at 3.75 percent and was repaid in 2017.

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

Years Ending	**Long-term Debt**		**Capital Lease Obligations**	
December 31,	**Principal**	**Interest**	**Principal**	**Interest**
2018	$ 538,600	$ 56,400	$ 13,163	$ -
2019	545,000	29,100	13,163	-
2020	60,000	-	-	-
2021	60,000	-	-	-
2022	60,000	-	-	-
2023	15,000	-	-	-
	$ 1,278,600	**$ 85,500**	**$ 26,326**	**$ -**

8. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have not significantly changed in 2017. The District has not changed its charity care or uninsured discount policies during fiscal year 2017. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

		2017		2016
Patient service revenue (net of contractual adjustments and discounts):				
Medicare	**$**	**2,159,563**	$	1,638,947
Medicaid		**471,823**		865,412
Other third-party payors		**2,942,620**		2,714,756
Patients		**1,069,891**		810,097
Colorado supplemental payments		**1,462,530**		1,424,503
		8,106,427		7,453,715
Less:				
Charity care		**8,899**		-
Provision for bad debts		**877,810**		822,242
Net patient service revenue	**$**	**7,219,718**	$	6,631,473

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – The District has been designated a critical access hospital by Medicare and is reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. The District is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Physician services are reimbursed on a fee schedule.

- *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. Through October 31, 2016, most outpatient services were paid on a cost basis. Effective November 1, 2016, Medicaid outpatient services are paid based on prospectively determined rates. Physician services are reimbursed on a fee schedule.

8. Net Patient Service Revenue (continued):

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately $43,000 and $115,000 in 2017 and 2016, respectively, due to differences between original estimates and final settlements or revised estimates.

Under the Colorado Health Care Affordability Act (Act), the District pays provider fees to the state of Colorado. The provider fees are based on inpatient days and outpatient charges. The District also receives various supplemental payments from the state of Colorado under this Act.

The District received approximately $1,463,000 and $1,425,000 from supplemental Medicaid payments and the Colorado Indigent Care Program in 2017 and 2016, respectively, to subsidize the cost of caring for Medicaid and uninsured patients.

The District provides charity care to patients who are financially unable to pay for healthcare services they receive. The District’s policy is not to pursue collections of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2017 and 2016, were approximately $11,000 and $-0-, respectively. The District did not receive any gifts or grants to subsidize charity care services during 2017 or 2016.

9. Contingencies and Commitments:

Medical malpractice claims – The District has professional liability insurance coverage with COPIC Insurance Company. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. The current professional liability insurance provides $1,000,000 per claim of primary coverage with an annual aggregate limit of $3,000,000. The policy has a $10,000 deductible per claim. The District also maintains excess liability coverage with limits of $5,000,000 per claim and $5,000,000 aggregate.

No liability has been accrued for future coverage for acts occurring in this or prior years. Also, it is possible that claims may exceed coverage obtained in any given year.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

9. Contingencies and Commitments (continued):

Tax, spending, and debt limitations – At the November 3, 1992, general election, Colorado voters approved an amendment to the Colorado Constitution, Article X, Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR was effective December 31, 1992, and its provisions limit government taxes, spending revenues, and debt without electoral approval.

TABOR, by its terms, applies to local governments such as special districts, but excludes "enterprises," which are defined as (1) a government owned business, (2) authorized to issue its own debt, and (3) receives less than 10 percent of its annual revenue in grants from all state and local governments. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of TABOR. However, the District has made certain interpretations of TABOR's language in order to determine its compliance.

Risk management – The District is exposed to various risks of loss related to 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. Settled claims have not exceeded this commercial coverage for any of the three preceding years.

***Management fees* –** In February 2015, the District entered into a Hospital Management Agreement (the Agreement) with Centura Health. The Agreement included management fees and certain other key personnel. The Agreement was terminated in July 2017. The District incurred management fees of approximately $181,000 and $153,000 in 2017 and 2016, respectively. Centura forgave outstanding debt of approximately $181,000 and $311,000 in 2017 and 2016, which was written off in 2017 and 2016, respectively. The debt forgiveness was recorded as contribution revenue in noncapital contributions on the statements of revenues, expenses, and changes in net position.

***Noncancellable operating leases* –** The following is a schedule by year of future minimum lease payments under operating leases that have initial or remaining terms in excess of one year:

Years Ending December 31,	**Amount**
2018	$ 56,878
2019	28,050
2020	26,984
2021	25,735
2022	18,653
	$ 156,300

10. Deferred Compensation Plan:

The District provides employees with a deferred compensation pension plan in accordance with Internal Revenue Code Section 403(b). The St. Vincent Hospital, Leadville, CO 403(b) Plan (the 403(b) Plan) allows for employee contributions only. Employees automatically become eligible to contribute as of beginning employment.

10. Deferred Compensation Plan (continued):

The District is also the administrator of a deferred compensation pension plan in accordance with Internal Revenue Code Section 401(a). The District discontinued contributions to the plan in January 2015. The St. Vincent General Hospital District Employees Pension Plan (the 401(a) Plan) is a defined contribution plan that was previously available to full-time employees with at least one year of service who had reached age 21. Plan participants vested in contributions based on a six-year vesting schedule. The 401(a) Plan allowed for employer contributions only. Contributions were set at 4 percent of employee compensation. While the 401(a) Plan is frozen, the District still administers the 401(a) Plan, and employees with balances in the Plan still have access to the benefits provided by their plan balances.

The 403(b) Plan and the 401(a) Plan are administered by the District. The District may amend the provisions of the plans at its discretion.

11. Concentration of Credit Risk:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The following is the mix of receivables from patients and third-party payors reported by the District:

	2017	**2016**
Medicare	**11 %**	8 %
Medicaid	**15**	9
Other third-party payors	**26**	29
Patients	**48**	54
	100 %	100 %

Physicians – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on District operations.

12. Electronic Health Records Incentive Payments:

The District recognized a Medicaid electronic health records (EHR) incentive payment during the year ended December 31, 2017. The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The District recognizes the first of its three Medicaid incentive payments in the year that certified EHR technology is adopted, implemented, or upgraded or when such technology is meaningfully used under the Medicare EHR incentive program. The subsequent two payments are issued when meaningful use is demonstrated under Medicare. The District recognized the three Medicaid payments in previous years. An additional Medicaid incentive payment of approximately $462,000 was recognized as revenue for the year ended December 31, 2017, based on an audit of the previous payments.

13. Intergovernmental Agreement:

Lake County voters approved an increase in county tax levies for 2016 to fund an intergovernmental agreement between the county and the District. The agreement was entered into in September 2015. The agreement was effective beginning January 1, 2016. Per the agreement, the District will provide ambulance services for the county, and the county will pay the District $750,000 per year from the tax revenues, through 2040.

14. Budget and Actual Revenues and Expenses:

The District overspent its approved budget by $641,449 and $504,736 in 2017 and 2016, respectively.

SUPPLEMENTARY INFORMATION

St. Vincent General Hospital District
Schedule of Budget and Actual Revenues and Expenses
Year Ended December 31, 2017

	Actual	Budget	Favorable (Unfavorable) Variance
Operating revenues			
Net patient service revenue, net of provision for bad debts of approximately $878,000	$ 7,219,718	$ 6,883,217	**$ 336,501**
Electronic health records incentive	462,074	-	**462,074**
County ambulance services contract	750,000	750,000	**-**
Other	137,751	7,334	**130,417**
Total operating revenues	8,569,543	7,640,551	**928,992**
Operating expenses			
Salaries and wages	4,189,934	3,878,880	**(311,054)**
Employee benefits	967,922	857,706	**(110,216)**
Professional fees and other purchased services	1,879,003	2,132,533	**253,530**
Supplies	448,876	438,719	**(10,157)**
Depreciation and amortization	392,900	288,854	**(104,046)**
Insurance	81,682	95,747	**14,065**
Utilities	162,177	145,232	**(16,945)**
Repairs and maintenance	232,332	296,905	**64,573**
Leases and rentals	72,288	-	**(72,288)**
Provider fees	293,690	-	**(293,690)**
Other	307,111	251,890	**(55,221)**
Total operating expenses	9,027,915	8,386,466	**(641,449)**
Operating loss	(458,372)	(745,915)	**287,543**
Nonoperating revenues (expenses)			
Taxation for operations	949,006	890,000	**59,006**
Noncapital contributions	181,310	50,000	**131,310**
Other nonoperating revenue	177,938	48,000	**129,938**
Interest expense	(107,957)	(23,440)	**(84,517)**
Total nonoperating revenues (expenses), net	1,200,297	964,560	**235,737**
Excess of revenues over expenses before capital grants	741,925	218,645	**523,280**
Capital grants	34,013	-	**34,013**
Change in net position	$ 775,938	$ 218,645	**$ 557,293**

See accompanying independent auditors' report.