

WEISBROD MEMORIAL COUNTY HOSPITAL

AND

THE KIOWA COUNTY HOSPITAL DISTRICT

Management's Discussion and Analysis,

Financial Statements and

Supplemental Information

For the Years Ended December 31, 2018 and 2017

And

Independent Auditors' Report

WEISBROD MEMORIAL COUNTY HOSPITAL AND THE KIOWA COUNTY HOSPITAL DISTRICT

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	11
SUPPLEMENTAL INFORMATION	
Budgeted and Actual Revenues and Expenses	20

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Weisbrod Memorial County Hospital and
the Kiowa County Hospital District
Eads, Colorado

We have audited the accompanying financial statements of Weisbrod Memorial County Hospital and the Kiowa County Hospital District (the District), which comprise the statement of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Weisbrod Memorial County Hospital and the Kiowa County Hospital District as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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

Report on Other Supplemental 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 supplemental schedule of budgeted and actual revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Stockman Kast Ryan + Co. LLP

May 20, 2019
Colorado Springs, Colorado

WEISBROD MEMORIAL COUNTY HOSPITAL AND THE KIOWA COUNTY HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis of the financial performance of Weisbrod Memorial County Hospital and the Kiowa County Hospital District (the District) provides an overview and analysis of the District's financial activities for the years ended December 31, 2018, 2017 and 2016. It should be read in conjunction with the accompanying basic financial statements.

Financial Highlights

- The District's total net position increased (decreased) by \$(227,160) and \$777,926 during 2018 and 2017, respectively. As of December 31, 2018, the District's net position is \$5,678,522.
- Operating revenues increased by \$482,939 and \$127,143 during 2018 and 2017, respectively.
- Operating expenses increased by \$986,862 and \$642,943 during 2018 and 2017, respectively.

Financial Statements

The District's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in financial position and cash flows in a manner similar to private-sector businesses. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting. The District's financial statements consist of three statements: a *statement of net position*, a *statement of revenues, expenses and changes in net position* and a *statement of cash flows*.

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

The *statement of revenues, expenses and changes in net position* presents both the operating revenues and expenses and non-operating revenues and expenses along with other changes in net position. This statement is an indication of the success of the District's operations.

The *statement of cash flows* presents the change in cash and cash equivalents resulting from operating activities, non-capital financing activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments.

The notes to the financial statements provide additional information that is essential for a full understanding of the financial statements.

Statement of Net Position

	2018	2017	2016
Assets:			
Cash and investments	\$ 1,991,086	\$ 3,053,921	\$ 1,772,798
Patient accounts receivable, net	771,460	858,173	1,055,039
Other current assets	1,647,725	687,027	1,775,957
Capital assets, net	<u>2,114,994</u>	<u>2,201,486</u>	<u>1,927,424</u>
Total assets	<u>\$ 6,525,265</u>	<u>\$ 6,800,607</u>	<u>\$ 6,531,218</u>
Liabilities:			
Current liabilities	\$ 346,856	\$ 396,870	\$ 448,099
Long-term liabilities	<u> </u>	<u> </u>	<u>46,392</u>
Total liabilities	<u>346,856</u>	<u>396,870</u>	<u>494,491</u>
Deferred inflows of resources — deferred property tax revenue	<u>499,887</u>	<u>498,055</u>	<u>504,769</u>
Net position:			
Investment in capital assets	2,114,994	2,155,066	1,795,689
Restricted	6,958	6,395	183,311
Unrestricted	<u>3,556,570</u>	<u>3,744,221</u>	<u>3,552,958</u>
Total net position	<u>5,678,522</u>	<u>5,905,682</u>	<u>5,531,958</u>
Total liabilities and net position	<u>\$ 6,525,265</u>	<u>\$ 6,800,607</u>	<u>\$ 6,531,218</u>

Total assets decreased by \$275,342 in 2018. Cash and investments decreased \$1,069,793 due mainly to the excess of expenses over revenues and timing of cash flows during the year. Other current assets increased by \$960,698 due primarily to third party payer settlement activity and an increase in inventory. Total liabilities decreased \$50,014 due primarily to payments on capital lease obligations.

Total assets increased by \$269,389 in 2017. Cash and investments increased due mainly to the excess of revenues over expenses and collection of third party payer settlements during the year. Other current assets decreased due to third party payer settlement activity. Net capital assets increased \$274,062 due primarily to the purchase of capital assets. Total liabilities decreased \$97,621 due primarily to payments on capital lease obligations.

Statement of Revenues, Expenses and Changes in Net Position

	2018	2017	2016
OPERATING REVENUES	<u>\$ 6,458,156</u>	<u>\$ 5,975,217</u>	<u>\$ 5,848,074</u>
OPERATING EXPENSES			
Salaries, wages and employee benefits	4,293,224	3,700,247	3,571,365
Purchased services and professional fees	1,529,378	1,426,488	1,125,411
Supplies	482,875	609,135	532,960
Depreciation	393,229	339,542	303,482
Other	<u>566,814</u>	<u>503,246</u>	<u>402,497</u>
Total operating expenses	<u>7,565,520</u>	<u>6,578,658</u>	<u>5,935,715</u>
LOSS FROM OPERATIONS	<u>(1,107,364)</u>	<u>(603,441)</u>	<u>(87,641)</u>
NON-OPERATING INCOME (EXPENSE)			
Property taxes	761,990	775,820	836,342
Interest expense	(2,406)	(5,936)	(14,587)
Other income, net	<u>30,528</u>	<u>1,980</u>	<u>55,930</u>
Non-operating income, net	<u>790,112</u>	<u>771,864</u>	<u>877,685</u>
REVENUES OVER (UNDER) EXPENSES	(317,252)	168,423	790,044
Grants and contributions restricted for capital assets	<u>90,092</u>	<u>205,301</u>	<u>257,268</u>
CHANGE IN NET POSITION	<u>(227,160)</u>	<u>373,724</u>	<u>1,047,312</u>
Net position, beginning of year	<u>5,905,682</u>	<u>5,531,958</u>	<u>4,484,646</u>
Net position, end of year	<u>\$ 5,678,522</u>	<u>\$ 5,905,682</u>	<u>\$ 5,531,958</u>

The 2018 statement shows an increase in operating revenues of \$482,939 and an increase in operating expenses of \$986,862 from 2017 to 2018. The decrease in net position was \$(227,160) in 2018 compared with an increase of \$373,724 in 2017. The 2017 statement shows an increase in operating revenues of \$127,143 and an increase in operating expenses of \$642,943 from 2016 to 2017. The increase in net position was \$373,724 in 2017 compared with \$1,047,312 in 2016.

Operating revenues increased in 2018 compared to 2017 by \$67,827 primarily due to increased outpatient volume. Operating expenses increased in 2018 compared to 2017 by \$986,862 primarily due to increased costs of locums, salaries and service agreements.

Operating revenues increased in 2017 compared to 2016 by \$127,143 primarily due to an increase in outpatient and swingbed services. Operating expenses increased in 2017 compared to 2016 by \$642,943 primarily due to an increase in salaries and locum usage and contract services. Non-operating revenues and expenses decreased in 2017 compared to 2016 primarily due to receiving lower property taxes in 2017.

Capital Assets and Debt Administration

Capital Assets — At December 31, 2018, 2017 and 2016, the District had \$2,114,994, \$2,201,486 and \$1,927,424, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. During 2018, the District acquired capital assets of \$342,426. The acquisitions consisted primarily of a sewer project, 3 door freezer, 2 washers, beds & mattresses, telemetry, glidescope, make up air unit, X-ray digital equipment and phase protector for Catscan. During 2017, the District acquired capital assets of \$636,014. The acquisitions consisted primarily of a CT scanner, building improvements, and other medical equipment.

Debt — At December 31, 2017 and 2016, the District had \$46,420 and \$131,735, respectively, of capital lease obligations, as detailed in Note 6 to the financial statements. No debt was outstanding at December 31, 2018.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating income and non-operating income and expenses, discussed earlier.

Contacting the District's Financial Management

This financial report is designed to provide the citizens, taxpayers, patients and creditors of the District a general overview of the District 's finances and to demonstrate the District 's accountability. If you have questions about this report or need additional financial information, contact the Kiowa County Hospital District, P. O. Box 817, Eads, Colorado 81036.

**WEISBROD MEMORIAL COUNTY HOSPITAL AND
THE KIOWA COUNTY HOSPITAL DISTRICT**

**STATEMENTS OF NET POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,212,076	\$ 2,287,038
Investments	765,094	760,488
Patient accounts receivable, net	771,460	858,173
Estimated third party payer settlements	946,931	
Property taxes receivable	499,887	498,055
Supplies	188,557	157,352
Other current assets	<u>19,308</u>	<u>31,620</u>
Total current assets	<u>4,403,313</u>	<u>4,592,726</u>
ASSETS WHOSE USE IS LIMITED		
Cash held by County Treasurer	6,958	6,395
CAPITAL ASSETS, NET	<u>2,114,994</u>	<u>2,201,486</u>
TOTAL	<u>\$ 6,525,265</u>	<u>\$ 6,800,607</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 113,308	\$ 78,667
Accrued expenses and other current liabilities	233,548	271,783
Capital lease obligations	<u> </u>	<u>46,420</u>
Total current liabilities	<u>346,856</u>	<u>396,870</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	<u>499,887</u>	<u>498,055</u>
NET POSITION		
Net investment in capital assets	2,114,994	2,155,066
Restricted	6,958	6,395
Unrestricted	<u>3,556,570</u>	<u>3,744,221</u>
Total net position	<u>5,678,522</u>	<u>5,905,682</u>
TOTAL	<u>\$ 6,525,265</u>	<u>\$ 6,800,607</u>

See notes to financial statements

**WEISBROD MEMORIAL COUNTY HOSPITAL AND
THE KIOWA COUNTY HOSPITAL DISTRICT**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
OPERATING REVENUES		
Net patient service revenue, net of provision for bad debts of \$286,834 and \$105,088, respectively	\$ 6,382,372	\$ 5,909,071
Other operating revenue	<u>75,784</u>	<u>66,146</u>
Total operating revenues	<u>6,458,156</u>	<u>5,975,217</u>
OPERATING EXPENSES		
Salaries, wages and employee benefits	4,293,224	3,700,247
Purchased services and professional fees	1,529,378	1,426,488
Supplies	782,875	609,135
Depreciation	393,229	339,542
Other	<u>566,814</u>	<u>503,246</u>
Total operating expenses	<u>7,565,520</u>	<u>6,578,658</u>
LOSS FROM OPERATIONS	<u>(1,107,364)</u>	<u>(603,441)</u>
NON-OPERATING INCOME (EXPENSE)		
Property taxes	761,990	775,820
Interest expense	(2,406)	(5,936)
Other income, net	<u>30,528</u>	<u>1,980</u>
Non-operating income, net	<u>790,112</u>	<u>771,864</u>
REVENUES OVER (UNDER) EXPENSES BEFORE GRANTS AND CONTRIBUTIONS RESTRICTED FOR CAPITAL ASSETS	(317,252)	168,423
GRANTS AND CONTRIBUTIONS RESTRICTED FOR CAPITAL ASSETS	<u>90,092</u>	<u>205,301</u>
CHANGE IN NET POSITION	(227,160)	373,724
NET POSITION, Beginning of year	<u>5,905,682</u>	<u>5,531,958</u>
NET POSITION, End of year	<u>\$ 5,678,522</u>	<u>\$ 5,905,682</u>

See notes to financial statements

**WEISBROD MEMORIAL COUNTY HOSPITAL AND
THE KIOWA COUNTY HOSPITAL DISTRICT**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 5,522,154	\$ 7,094,667
Payments to vendors	(2,875,631)	(2,589,680)
Payments to employees	(4,333,811)	(3,689,878)
Other receipts, net	<u>90,448</u>	<u>187,768</u>
Net cash provided by (used in) operating activities	<u>(1,596,840)</u>	<u>1,002,877</u>
NON-CAPITAL FINANCING ACTIVITIES		
Property taxes supporting operations	761,990	775,820
Other, net	<u>58,765</u>	<u>8,524</u>
Net cash provided by non-capital financing activities	<u>820,755</u>	<u>784,344</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of capital assets	(342,426)	(636,014)
Proceeds from sales of capital assets		9,550
Grants and contributions restricted for capital assets	90,092	205,301
Principal paid on long-term debt	(46,420)	(85,315)
Interest paid on long-term debt	<u>(2,406)</u>	<u>(5,936)</u>
Net cash used in capital and related financing activities	<u>(301,160)</u>	<u>(512,414)</u>
INVESTING ACTIVITIES		
Investment income	7,452	6,316
Purchases of investments	(765,094)	(1,519,639)
Proceeds from disposition and maturities of investments	<u>760,488</u>	<u>1,516,461</u>
Net cash provided by investing activities	<u>2,846</u>	<u>3,138</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,074,399)	1,277,945
CASH AND CASH EQUIVALENTS, Beginning of year	<u>2,293,433</u>	<u>1,015,488</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,219,034</u>	<u>\$ 2,293,433</u>

(Continued)

**WEISBROD MEMORIAL COUNTY HOSPITAL AND
THE KIOWA COUNTY HOSPITAL DISTRICT**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION		
Cash and cash equivalents	\$ 1,212,076	\$ 2,287,038
Cash held by County Treasurer	<u>6,958</u>	<u>6,395</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 1,219,034</u>	<u>\$ 2,293,433</u>
RECONCILIATION OF LOSS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Loss from operations	\$ (1,107,364)	\$ (603,441)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Depreciation	393,229	339,542
Changes in operating assets and liabilities:		
Patient accounts receivable, net	86,713	196,866
Estimated third-party payor settlements	(946,931)	988,730
Accounts payable, accrued expenses and other current liabilities	(5,946)	(14,379)
Other assets and liabilities	<u>(16,541)</u>	<u>95,559</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (1,596,840)</u>	<u>\$ 1,002,877</u>

(Concluded)

See notes to financial statements

WEISBROD MEMORIAL COUNTY HOSPITAL AND THE KIOWA COUNTY HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General — Weisbrod Memorial County Hospital and the Kiowa County Hospital District (the District) consists of Kiowa County Hospital District dba Weisbrod Memorial County Hospital, a licensed 25-bed critical access hospital with acute and long-term beds and the Eads Medical Clinic (EMC), a rural health clinic, located in Eads, Colorado. Of the District's ten-member Board of Directors, five members are elected by the citizens of Kiowa County (the County) and the other five members are appointed by the County Commissioners. The Board of Directors operates, controls and manages the District.

Prior to 1963, Kiowa County, Colorado owned and operated the Weisbrod Memorial County Hospital. In 1963 the Kiowa County Hospital District was organized for the purpose of issuing bonds to build a new hospital wing. On June 18, 1965, a service agreement, which is still in effect, was entered into between the County and the District, whereby the County agreed to assign its facilities to the Hospital District in return for the District's agreement to manage and operate the facilities and to provide adequate and efficient hospital and medical services to the citizens of both governmental units. The agreement further stipulates that all revenues from operations belong to the District, and that the County shall provide additional funds to the District to be used whenever District funds are not sufficient to meet expenditures. In 1970, the County, through the Public Works Fund, constructed a new wing to the facilities. Since the hospital is operated by the District, all of the capital assets which are the property of both the County and the District are included in these financial statements.

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

Basis of Presentation — The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets 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) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated non-exchange transactions. Government-mandated non-

exchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions 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.

Cash and Cash Equivalents — The District considers all liquid investments, other than those limited as to use, with the original maturities of three months or less to be cash equivalents.

Property Taxes — The District received approximately 11% of its financial support from property taxes in 2018 and 2017. These funds were used to support operations. Taxes are assessed on January 1 and are due in one installment on April 30 or in two installments on February 28 and June 15 of each year. The County bills and collects property taxes for the District. Revenue from property taxes is recognized in the year for which the taxes are levied.

Investments and Investment Income — Investments consist of certificates of deposit and are stated at fair value. Certificates of deposit are valued based on cost, which approximates fair value. Investment income includes dividend and interest income and, when applicable, realized and unrealized gains and losses on investments.

Patient Accounts Receivable — The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the District bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the patient or third-party payor.

Supplies — Supplies are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method.

Capital Assets — Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation if acquired by gift. The District capitalizes all capital assets exceeding \$5,000 and with an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. Interest incurred during the construction phase of capital assets is included in the capitalized value of the assets constructed.

The following estimated useful lives are being used by the District:

Buildings	30 – 40 years
Improvements	10 – 15 years
Equipment	5 – 20 years

Gifts of capital assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as restricted net position.

Compensated Absences — The District's policies permit employees to accumulate paid time off benefits. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date, 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 — The District's net position is classified in the following components:

- **Net Investment in Capital Assets** — This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets, if any. If there are significant unspent related debt proceeds, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** — This component consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets are assets which have restrictions placed on the use of the assets through external constraints imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.
- **Unrestricted** — This component consists of the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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.

Net Patient Service Revenue — The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for

uncollectible accounts. Retroactive adjustments are recorded on an estimated basis in the period the services are rendered and such estimated amounts are revised in future periods, as adjustments become known.

Charity and Indigent Care — The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The District provided charity care based upon standard rates for the years ended December 31, 2018 and 2017 of \$26,426 and \$5,122, respectively.

Income Taxes — As an essential government function of the County, the District is generally exempt from federal and state income taxes. However, the District is subject to federal income tax on any unrelated business taxable income.

The District believes that it does not have any uncertain tax positions that are material to the financial statements.

Budget and Budgetary Accounting — Prior to October 15, the budget is prepared by the administration and staff of the District and is submitted to the District Board of Directors. After conducting a public hearing, the budget is approved by the Board of Directors and legally enacted through passage of a resolution.

Budgets may be amended during the year by supplemental appropriation. All appropriations lapse at year end.

Subsequent Events — The District has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. DEPOSITS AND INVESTMENTS

Deposits — Custodial credit risk is the risk that in the event of a bank failure, a hospital's deposits may not be returned to it. The District does not have a formal policy that addresses custodial credit risk.

The Colorado Public Deposit Protection Act requires financial institutions to collateralize any uninsured public deposits. Any excess of deposits over the Federal Deposit Insurance Corporation (FDIC) limits that are not insured is covered by collateral pledged by the financial institution in accordance with Public Deposit Protection Act.

At December 31, 2018 and 2017, \$296,808 and \$256,395, respectively, of the District's bank balances were insured by FDIC. The remaining balances were uninsured but collateralized by securities held by the pledging financial institution's trust department in other than the District's name.

Investments — The District's investments are subject to various risks, including the following:

Interest Rate Risk — As a means of limiting its exposure to fair value losses arising from rising interest rates, the District invests primarily in certificates of deposit with limited durations. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk — Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The District does not have a formal investment policy that would limit its investment options.

Concentration of Credit Risk — The District does not have a formal investment policy for managing concentration of credit risk.

Summary of Carrying Values — At December 31, 2018 and 2017 the District's deposits and investments consisted of the following:

Carrying value:		
Cash and cash equivalents	\$ 1,219,034	\$ 2,293,433
Certificates of deposit	<u>765,094</u>	<u>760,488</u>
Total	<u>\$ 1,984,128</u>	<u>\$ 3,053,921</u>

Included in the following statement of net position captions:

	2018	2017
Cash and cash equivalents	\$ 1,212,076	\$ 2,287,038
Investments	765,094	760,488
Cash held by Colorado State Treasurer	<u>6,958</u>	<u>6,395</u>
Total	<u>\$ 1,984,128</u>	<u>\$ 3,053,921</u>

Fair Value Measurements — The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest level to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest level to unobservable inputs (level 3), as follows:

- Level 1 Unadjusted quoted prices for identical instruments in active markets.
- Level 2 Observable inputs other than quoted market prices.
- Level 3 Valuation derived from valuation techniques in which significant inputs are unobservable.

The District holds all of its investments in certificates of deposit as of December 31, 2018 and 2017, which are classified as Level 2 investments.

3. PATIENT ACCOUNTS RECEIVABLE

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. The mix of receivables from third-party payors and patients as of December 31, 2018 and 2017 is as follows:

	2018	2017
Medicare	61%	71%
Other third-party payors	21	9
Medicaid	17	17
Private pay	<u>1</u>	<u>3</u>
Total	<u>100%</u>	<u>100%</u>

4. NET PATIENT SERVICE REVENUE

The District recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided. 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. This provision for bad debts is presented in the statements of revenues, expenses and changes in net position as a component of net patient service revenue.

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

Medicaid — Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge and cost-reimbursement methodologies. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid.

Approximately 75% and 74% of net patient service revenues are from participation in the Medicare and Medicaid programs for the years ended December 31, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. Net patient service revenue increased by approximately \$93,000 and \$390,000 during 2018 and 2017, respectively, as the result of prior-year settlements and the removal of allowances previously estimated that are no longer necessary as a result of financial settlements.

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

The State of Colorado has implemented a provider fee on Medicaid providers which generates additional federal matching funds. Provider fee revenue and expense were as follows for the years ended December 31, 2018 and 2017:

	2018	2017
Provider fee revenue	\$ 830,794	\$ 750,005
Provider fee expense	<u>87,602</u>	<u>137,293</u>
Net excess of revenue over expense	<u>\$ 743,192</u>	<u>\$ 612,712</u>

The net provider fees have been recorded within net patient service revenue in the accompanying financial statements.

5. CAPITAL ASSETS

Capital assets activity is as follows for the years ended December 31, 2018 and 2017:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
2018					
Land	\$ 5,000				\$ 5,000
Buildings	2,265,115	\$ 104,472	\$ (18,129)		2,351,458
Equipment	<u>2,933,446</u>	<u>237,954</u>	<u>(139,289)</u>		<u>3,032,111</u>
	<u>5,203,561</u>	<u>342,426</u>	<u>(157,418)</u>	\$ —	<u>5,388,569</u>
Less accumulated depreciation:					
Buildings	(1,382,243)	(69,526)	18,131		(1,433,638)
Equipment	<u>(1,619,832)</u>	<u>(323,703)</u>	<u>103,598</u>		<u>(1,839,937)</u>
	<u>(3,002,075)</u>	<u>(393,229)</u>	<u>121,729</u>	—	<u>(3,273,575)</u>
Capital assets, net	<u>\$ 2,201,486</u>	<u>\$ (50,803)</u>	<u>\$ (35,689)</u>	<u>\$ —</u>	<u>\$ 2,114,994</u>

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
2017					
Land	\$ 5,000				\$ 5,000
Buildings	1,872,151	\$ 163,956	\$ (18,964)	\$ 247,972	2,265,115
Equipment	2,537,044	472,058	(75,656)		2,933,446
Construction in progress	<u>247,972</u>			<u>(247,972)</u>	
	<u>4,662,167</u>	<u>636,014</u>	<u>(94,620)</u>	<u>—</u>	<u>5,203,561</u>
Less accumulated depreciation:					
Buildings	(1,330,578)	(65,844)	14,179		(1,382,243)
Equipment	<u>(1,404,165)</u>	<u>(273,698)</u>	<u>58,031</u>		<u>(1,619,832)</u>
	<u>(2,734,743)</u>	<u>(339,542)</u>	<u>72,210</u>	<u>—</u>	<u>(3,002,075)</u>
Capital assets, net	<u>\$ 1,927,424</u>	<u>\$ 296,472</u>	<u>\$ (22,410)</u>	<u>\$ —</u>	<u>\$ 2,201,486</u>

6. CAPITAL LEASE OBLIGATIONS

Capital lease obligations activity is as follows for the years ended December 31, 2018 and 2017:

	Beginning Balance	Borrowings	Repayments	Ending Balance	Due within one year
2018					
Capital lease obligations	<u>\$ 46,420</u>	<u>\$ —</u>	<u>\$ (46,420)</u>	<u>\$ —</u>	<u>\$ —</u>
2017					
Capital lease obligations	<u>\$ 131,735</u>	<u>\$ —</u>	<u>\$ (85,315)</u>	<u>\$ 46,420</u>	<u>\$ 46,420</u>

The District leased equipment under the terms of capital lease agreements that expired through September 2018.

7. RISK MANAGEMENT AND CONTINGENCIES

Risk Management — The District is exposed to various risks of loss from torts; thefts of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims did not exceed this commercial coverage during 2018 or 2017.

Medical Malpractice — The District purchases medical malpractice insurance under a claims-made 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 District's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Industry Regulations — The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

Tax, Spending and Debt Limitations — Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including raising revenue, spending abilities, and other specific requirements of state and local governments. Management believes that the District is compliant with the rules of Colorado's Taxpayer's Bill of Rights (TABOR), however, many provisions of the Tabor Amendment are complex and subject to further interpretation and will require judicial interpretation.

8. RETIREMENT PLANS

In 2017, the District provided pension benefits for its employees through a defined contribution plan within the meaning of code sections 401(a) and 414(d). Employees were eligible to receive employer contributions one year after hire. The employer rate of contribution was a match of up to 3% of the employee's contributions to the deferred compensation plan (see below). The District's contributions for each employee (and earnings allocated to the employee's account) were fully vested after five years of continuous service. During 2018, this plan was terminated pursuant to the adoption of the Colorado County Officials and Employees Retirement Association (CCOERA) 457b plan discussed below.

The District provides pension benefits for its employees through a 457b deferred compensation plan. During 2018, the District terminated its prior 457b plan and adopted the CCOERA 457b plan. Participation in the plan is voluntary. Employees are eligible to participate immediately and are eligible for employer contributions after completion of one year of service and at least 1,000 hours. Employees may elect to contribute any amount up to the maximum allowed under the Internal Revenue Code. The District matches employee contributions up to a maximum of 3% of the employee's gross wages. Benefit provisions were established and can be amended by the District's Board of Directors and management.

Retirement plan contributions made by the District totaled \$44,770 and \$46,972 during 2018 and 2017, respectively.

**WEISBROD MEMORIAL COUNTY HOSPITAL AND
THE KIOWA COUNTY HOSPITAL DISTRICT**

Supplemental Information

**WEISBROD MEMORIAL COUNTY HOSPITAL AND
THE KIOWA COUNTY HOSPITAL DISTRICT**

**BUDGETED AND ACTUAL REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Actual	Budgeted	Favorable (Unfavorable) Variance
OPERATING REVENUES			
Net patient service revenue	\$ 6,382,372	\$ 5,647,827	\$ 734,545
Other operating revenue	<u>75,784</u>	<u>75,879</u>	<u>(95)</u>
Total operating revenues	<u>6,458,156</u>	<u>5,723,706</u>	<u>734,450</u>
OPERATING EXPENSES			
Salaries, wages and employee benefits	4,293,224	3,872,412	(420,812)
Other operating expenses	<u>3,272,296</u>	<u>2,765,877</u>	<u>(506,419)</u>
Total operating expenses	<u>7,565,520</u>	<u>6,638,289</u>	<u>(927,231)</u>
LOSS FROM OPERATIONS	(1,107,364)	(914,583)	(192,781)
Non-operating income, net (including contributions restricted for capital assets)	<u>880,204</u>	<u>923,578</u>	<u>(43,374)</u>
CHANGE IN NET POSITION	<u>\$ (227,160)</u>	<u>\$ 8,995</u>	<u>\$ (236,155)</u>