

**Prowers County Hospital District
doing business as
Prowers Medical Center**

Basic Financial Statements and
Independent Auditors' Report

December 31, 2018 and 2017



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Prowers County Hospital District
doing business as Prowers Medical Center
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Prowers County Hospital District
doing business as Prowers Medical Center
Lamar, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Prowers County Hospital District doing business as Prowers Medical Center (the District) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 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. 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 District's basic financial statements as a whole. 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 10, 2019

Prowers County Hospital District
doing business as Prowers Medical Center
Statements of Net Position
December 31, 2018 and 2017

| ASSETS | 2018 | 2017 |
|---|----------------------|----------------------|
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 12,926,348 | \$ 6,681,443 |
| Receivables: | | |
| Patient accounts | 2,889,533 | 3,488,226 |
| Estimated third-party payor settlements | 708,000 | 2,831,000 |
| Taxes | 360,924 | 361,288 |
| Other | 408,431 | 441,062 |
| Inventories | 621,133 | 609,310 |
| Prepaid expenses | 865,287 | 877,556 |
| Total current assets | 18,779,656 | 15,289,885 |
| <i>Noncurrent assets</i> | | |
| Capital assets, net | 17,277,335 | 17,261,034 |
| Total assets | \$ 36,056,991 | \$ 32,550,919 |

See accompanying notes to basic financial statements.

Prowers County Hospital District
doing business as Prowers Medical Center
Statements of Net Position (Continued)
December 31, 2018 and 2017

| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | 2018 | 2017 |
|---|----------------------|----------------------|
| <i>Current liabilities</i> | | |
| Accounts payable | \$ 2,191,678 | \$ 1,138,448 |
| Accrued compensation and related liabilities | 1,357,789 | 1,142,117 |
| Refunds payable | - | 236,812 |
| Total current liabilities | 3,549,467 | 2,517,377 |
| <i>Noncurrent liabilities</i> | | |
| Construction retainage | - | 164,540 |
| Total liabilities | 3,549,467 | 2,681,917 |
| <i>Deferred inflows of resources, taxes</i> | 356,000 | 356,000 |
| <i>Net position</i> | | |
| Net investment in capital assets | 17,277,335 | 17,096,494 |
| Unrestricted | 14,874,189 | 12,416,508 |
| Total net position | 32,151,524 | 29,513,002 |
| Total liabilities, deferred inflows of resources, and net position | \$ 36,056,991 | \$ 32,550,919 |

See accompanying notes to basic financial statements.

Prowers County Hospital District
doing business as Prowers Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|----------------------|----------------------|
| <i>Operating revenues</i> | | |
| Net patient service revenue | \$ 31,025,905 | \$ 32,435,791 |
| Grants | 53,283 | 67,919 |
| Other | 158,156 | 173,453 |
| Total operating revenues | 31,237,344 | 32,677,163 |
| <i>Operating expenses</i> | | |
| Salaries and wages | 11,243,106 | 10,733,904 |
| Employee benefits | 3,020,237 | 2,566,138 |
| Professional fees and other purchased services | 5,891,468 | 5,812,677 |
| Supplies | 4,538,289 | 4,086,633 |
| Utilities | 566,548 | 538,044 |
| Depreciation | 1,354,935 | 1,343,544 |
| Insurance | 277,439 | 261,559 |
| Leases and rentals | 191,220 | 187,837 |
| Repairs and maintenance | 403,339 | 415,769 |
| Provider fees | 931,446 | 807,633 |
| Other | 681,325 | 783,891 |
| Total operating expenses | 29,099,352 | 27,537,629 |
| <i>Operating income</i> | 2,137,992 | 5,139,534 |
| <i>Nonoperating revenues (expenses)</i> | | |
| Property taxes | 416,022 | 404,430 |
| Investment income | 80,467 | 81,465 |
| Interest expense | - | (630,537) |
| Contributions | 1,691 | 25,228 |
| Gain on disposal of capital assets | 2,350 | 5,102 |
| Total nonoperating revenues (expenses), net | 500,530 | (114,312) |
| Excess of revenues over expenses before capital grants and contributions and extraordinary item | 2,638,522 | 5,025,222 |
| <i>Capital grants and contributions</i> | - | 7,500 |
| <i>Extraordinary item - gain on insurance settlement net of building impairment loss of \$449,057</i> | - | 496,906 |
| Change in net position | 2,638,522 | 5,529,628 |
| Net position, beginning of year | 29,513,002 | 23,983,374 |
| Net position, end of year | \$ 32,151,524 | \$ 29,513,002 |

See accompanying notes to basic financial statements.

Prowers County Hospital District
doing business as Prowers Medical Center
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|----------------------|---------------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | | |
| <i>Cash flows from operating activities</i> | | |
| Receipts from and on behalf of patients | \$ 33,510,786 | \$ 29,369,972 |
| Receipts from electronic health records incentive | - | 5,631 |
| Receipts from grants | 53,283 | 67,919 |
| Other receipts | 158,156 | 167,822 |
| Payments to and on behalf of employees | (14,047,671) | (13,436,723) |
| Payments to suppliers and contractors | (12,394,767) | (12,520,317) |
| Net cash provided by operating activities | 7,279,787 | 3,654,304 |
| <i>Cash flows from noncapital financing activities</i> | | |
| Property taxes | 416,386 | 403,468 |
| Cash received from contributions | 1,691 | 25,228 |
| Net cash provided by noncapital financing activities | 418,077 | 428,696 |
| <i>Cash flows from capital and related financing activities</i> | | |
| Purchase of capital assets | (1,533,426) | (840,845) |
| Capital grants | - | 7,500 |
| Proceeds from sale of capital assets | - | 12,308 |
| Proceeds from insurance settlement | - | 619,042 |
| Principal paid on long-term debt | - | (13,402,673) |
| Interest paid on long-term debt | - | (630,537) |
| Net cash used in capital and related financing activities | (1,533,426) | (14,235,205) |
| <i>Cash flows from investing activities</i> | | |
| Investment income | 80,467 | 81,465 |
| Proceeds from sale of certificates of deposit | - | 253,633 |
| Net cash provided by investing activities | 80,467 | 335,098 |
| Net increase (decrease) in cash and cash equivalents | 6,244,905 | (9,817,107) |
| Cash and cash equivalents, beginning of year | 6,681,443 | 16,498,550 |
| Cash and cash equivalents, end of year | \$ 12,926,348 | \$ 6,681,443 |

See accompanying notes to basic financial statements.

Prowers County Hospital District
doing business as Prowers Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

| | 2018 | 2017 |
|---|---------------------|---------------------|
| <i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i> | | |
| Operating income | \$ 2,137,992 | \$ 5,139,534 |
| <i>Adjustments to reconcile operating income to net cash provided by operating activities</i> | | |
| Depreciation | 1,354,935 | 1,343,544 |
| Provision for bad debts | 1,269,160 | 1,462,492 |
| Decrease (increase) in assets: | | |
| Receivables: | | |
| Patient accounts receivable | (670,467) | (1,872,131) |
| Estimated third-party payor settlements | 2,123,000 | (2,431,000) |
| Other | 32,631 | 45,290 |
| Inventories | (11,823) | 107,696 |
| Prepaid expenses | 12,269 | (174,240) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 1,053,230 | 394,980 |
| Accrued compensation and related liabilities | 215,672 | (136,681) |
| Refunds payable | (236,812) | 236,812 |
| Estimated third-party payor settlements | - | (335,000) |
| Disproportionate Share Hospital program payable | - | (126,992) |
| Net cash provided by operating activities | \$ 7,279,787 | \$ 3,654,304 |

See accompanying notes to basic financial statements.

**Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements
Years Ended December 31, 2018 and 2017**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Prowers County Hospital District doing business as Prowers Medical Center (the District) is an independent governmental entity organized under provisions of the Colorado Revised Statutes. It operates within Prowers and Baca Counties, but is not part of the County governments. As organized, the District is exempt from payment of federal income tax. The Board of Directors consists of five elected residents of southeast Colorado.

The District operates a licensed 25-bed critical access hospital, clinics, and a home health agency. The services provided include medical-surgical, obstetrics, pediatrics, surgery, emergency room, clinic, and the related ancillary services (laboratory, imaging, chemotherapy, cardiology, physical therapy, respiratory therapy, etc.).

b. Summary of Significant Accounting Policies

Use of estimates – The preparation of basic 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 disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect 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.

Inventories – Inventories are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

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 period of the related expense.

Compensated absences – The District’s policy is to permit employees to accumulate earned but unused paid time off (PTO) benefits after the first 30 days of employment. Depending on years of service, PTO accrues from 128 up to 208 hours per year. The District’s policy is to permit employees to accumulate PTO up to a maximum of 200 hours. Upon reaching 200 hours, any excess PTO earned that would extend an employee over the stated maximum is transferred to an individual catastrophic sick leave (CSL) bank. Upon termination or retirement, the CSL bank is dissolved. The hours are not converted to compensation for liquidation of the account. As of December 31, 2018 and 2017, \$470,011 and \$425,690, respectively, were accrued for PTO.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of the District’s 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 composed of 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 composed of remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

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.

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 principal 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 federal and state grants 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 to capital acquisitions are reported after nonoperating revenues and expenses. Grants that are 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.

Upcoming accounting standard pronouncements – In June 2017, the Governmental Accounting Standards Board (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 liability and an intangible asset representing the lessee’s right to use the leased asset, 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.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements (continued) – 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.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the District's year ending December 31, 2020. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

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 does not expect this statement to have any significant effect on financial reporting.

Subsequent events – The District has evaluated subsequent events through June 10, 2019, the date on which the financial statements were available to be issued.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

2. Bank 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 and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation or by deposits collateralized by securities not held in the District's name under 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 invests in accordance with Colorado State law. Colorado State Statutes authorize the District to invest in obligations of the United States Treasury, agencies and instrumentalities, commercial paper, repurchase agreements, money market funds, and local government investment pools with a maturity date of no more than five years from the date of purchase.

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of 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 increased due to lower collection rates on more aged self-pay accounts receivable. 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.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

3. Patient Accounts Receivable (continued):

Patient accounts receivable reported as current assets by the District consisted of these amounts:

| | 2018 | 2017 |
|---|---------------------|---------------------|
| Receivable from patients and their insurance carriers | \$ 2,796,266 | \$ 2,805,547 |
| Receivable from Medicare | 1,008,699 | 1,265,661 |
| Receivable from Medicaid | 615,435 | 610,818 |
| Total patient accounts receivable | 4,420,400 | 4,682,026 |
| Less allowance for uncollectible accounts | 1,530,867 | 1,193,800 |
| Patient accounts receivable, net | \$ 2,889,533 | \$ 3,488,226 |

4. Property Taxes:

The Prowers County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Property taxes are levied and assessed in December on property values assessed as of January 1 of the prior year.

Taxes are due in two equal amounts by February 28 and June 15, or in one installment by April 30. The assessed property is subject to lien on the levy date. Property taxes are levied by the District and collected by the Prowers County Treasurer. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the District. No allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates. A deferred inflow of resources and a receivable were recorded at December 31, 2018 and 2017, for taxes levied for 2019 and 2018, respectively.

For 2018, the District's regular tax levy was \$2.723 per \$1,000 on a total assessed valuation of \$133,219,668, for a total regular levy of \$356,434. For 2017 the District's regular tax levy was \$2.723 per \$1,000 on a total assessed valuation of \$127,115,059, for a total regular levy of \$346,134.

5. Extraordinary Item:

During the year ended December 31, 2017, the District determined that there was sufficient evidence of impairment due to hail damage to write down the reported value of the District's roofs. The recorded value was written down by \$449,057, the net book value of the damaged portion of the roof. The District received insurance proceeds of \$619,042 in 2017. The District recorded an insurance claim receivable of \$326,921 as of December 31, 2017, which is the remaining amount the District expects to receive upon completing the roof repair.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

6. Capital Assets:

The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life greater than three years. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When such assets are disposed of, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is classified in nonoperating revenues or expenses.

All capital assets, other than land and construction in progress, are being depreciated using the straight-line method over the shorter period of the lease term or the estimated useful life of the capital asset. Such amortization is included in depreciation in the financial statements.

Useful lives have been estimated as follows:

| | |
|----------------------------|---------------|
| Land improvements | 5 to 40 years |
| Buildings and improvements | 5 to 40 years |
| Equipment | 3 to 30 years |

Capital asset additions, retirements, transfers, and balances were as follows:

| | Balance December 31, 2017 | Additions | Retirements | Transfers | Balance December 31, 2018 |
|--|---------------------------------|-------------------|---------------------|-------------|---------------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 52,827 | \$ - | \$ - | \$ - | \$ 52,827 |
| Construction in progress | 72,519 | 158,981 | - | (229,871) | 1,629 |
| Total capital assets not being depreciated | 125,346 | 158,981 | - | (229,871) | 54,456 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 451,497 | 74,488 | - | 69,023 | 595,008 |
| Buildings and improvements | 16,659,153 | 442,445 | (173,380) | 23,610 | 16,951,828 |
| Equipment | 16,233,689 | 868,702 | - | 137,238 | 17,239,629 |
| Total capital assets being depreciated | 33,344,339 | 1,385,635 | (173,380) | 229,871 | 34,786,465 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | (221,216) | (24,868) | - | - | (246,084) |
| Buildings and improvements | (6,725,055) | (512,267) | - | - | (7,237,322) |
| Equipment | (9,262,380) | (817,800) | - | - | (10,080,180) |
| Total accumulated depreciation | (16,208,651) | (1,354,935) | - | - | (17,563,586) |
| <i>Total capital assets being depreciated, net</i> | 17,135,688 | 30,700 | (173,380) | 229,871 | 17,222,879 |
| Capital assets, net | \$ 17,261,034 | \$ 189,681 | \$ (173,380) | \$ - | \$ 17,277,335 |

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

6. Capital Assets (continued):

| | Balance December 31, 2016 | Additions | Retirements | Transfers | Balance December 31, 2017 |
|--|---------------------------------|---------------------|---------------------|-------------|---------------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 52,827 | \$ - | \$ - | \$ - | \$ 52,827 |
| Construction in progress | 79,847 | 56,573 | (3,641) | (60,260) | 72,519 |
| Total capital assets not being depreciated | 132,674 | 56,573 | (3,641) | (60,260) | 125,346 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 451,497 | - | - | - | 451,497 |
| Buildings and improvements | 16,821,017 | 72,392 | (291,516) | 57,260 | 16,659,153 |
| Equipment | 16,717,567 | 406,802 | (893,680) | 3,000 | 16,233,689 |
| Total capital assets being depreciated | 33,990,081 | 479,194 | (1,185,196) | 60,260 | 33,344,339 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | (194,232) | (26,984) | - | - | (221,216) |
| Buildings and improvements | (6,455,627) | (539,612) | 270,184 | - | (6,725,055) |
| Equipment | (8,944,181) | (776,948) | 458,749 | - | (9,262,380) |
| Total accumulated depreciation | (15,594,040) | (1,343,544) | 728,933 | - | (16,208,651) |
| <i>Total capital assets being depreciated, net</i> | 18,396,041 | (864,350) | (456,263) | 60,260 | 17,135,688 |
| Capital assets, net | \$ 18,528,715 | \$ (807,777) | \$ (459,904) | \$ - | \$ 17,261,034 |

7. Employee Health Self-insurance:

The District offers a health insurance plan to all employees, effective the first day of the month following completion of a 30-day waiting period. The plan is administered by the District. The District records plan expenses as incurred. The District accrues an incurred but not reported (IBNR) liability for plan claims that have been incurred but have not yet been reported to the District. The liability is included in accrued compensation and related liabilities on the statements of net position. The District has also purchased a supplementary insurance policy to cover claims in excess of \$60,000.

Changes in the District's IBNR amount were as follows:

| | 2018 | 2017 |
|--|-------------|-------------|
| Claim liability, beginning of year | \$ 152,276 | \$ 152,111 |
| Current year claims and changes in estimates | 1,914,818 | 1,508,337 |
| Claim payments | (1,776,824) | (1,508,172) |
| Claim liability, end of year | \$ 290,270 | \$ 152,276 |

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

8. Long-term Debt:

A schedule of changes in the District's long-term debt is as follows:

| | Balance December 31, 2016 | Additions | Reductions | Balance December 31, 2017 | Amounts Due Within One Year |
|---------------------------------------|---------------------------------|-----------|-----------------|---------------------------------|-----------------------------------|
| <i>Long-term debt</i> | | | | | |
| Improvement Revenue Bond, Series 2014 | \$ 13,402,673 | \$ - | \$ (13,402,673) | \$ - | \$ - |

Long-term debt – The terms and due dates of the District's long-term debt are as follows:

- Improvement Revenue Bond, Series 2014, dated December 17, 2014, in the original amount of \$14,480,000, for the purpose of expansion and renovation of the District's existing facility and the refinancing of existing debt. The District paid off the remaining bond balance in December 2017.

9. Commitments Under Noncancelable Operating Leases and Service Agreements:

Following is a summary of future minimum obligations under noncancelable operating leases for equipment and future service contract expenses:

| Years Ending December 31, | Amount |
|------------------------------|-------------------|
| 2019 | \$ 263,232 |
| 2020 | 231,865 |
| 2021 | 81,465 |
| 2022 | 25,164 |
| | \$ 601,726 |

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

10. 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 changed significantly from the prior year. The District has not changed its charity care or uninsured discount policies during 2018 or 2017. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, follows:

| | 2018 | 2017 |
|---|----------------------|----------------------|
| Patient service revenue (net of contractual adjustments and discounts): | | |
| Medicare | \$ 10,523,670 | \$ 11,990,952 |
| Medicaid | 5,244,077 | 6,972,872 |
| Other third-party payors | 7,648,388 | 7,735,914 |
| Patients | 3,800,500 | 1,549,887 |
| Supplemental payments | 5,500,735 | 5,656,305 |
| 340b contract pharmacy | 154,931 | 439,270 |
| | 32,872,301 | 34,345,200 |
| Less: | | |
| Charity care | 577,236 | 446,917 |
| Provision for bad debts | 1,269,160 | 1,462,492 |
| Net patient service revenue | \$ 31,025,905 | \$ 32,435,791 |

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

10. Net Patient Service Revenue (continued):

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 and outpatient services and rural health clinic visits on a cost basis as defined and limited by the Medicare program. Physician services outside the rural health clinic are paid on a fee schedule. Home health is reimbursed on a prospective rate per episode of care. 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.
- *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. Medicaid outpatient services are paid based on prospectively determined rates. Skilled nursing services are paid on prospectively determined rates per day. Rural health clinic encounters are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid. Physician services are reimbursed on a fee schedule.

The District also has entered into payment agreements with certain commercial insurance carriers and preferred provider 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 Medicare, Medicaid, and other 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 decreased by approximately \$100,000 in 2018, and increased by approximately \$192,000 in 2017, due to differences between the original estimates and revised estimates or final settlements.

The District received notice that their Medicaid rural health clinic rate was being updated to the higher of the prospectively determined rate or the cost per encounter as determined by the District's annual Medicare cost reports. Rate reconciliations are being conducted by the Colorado Department of Health Care Policy and Financing. As a result, Medicaid claims from 2010 through 2017 will be reprocessed, resulting in estimated additional reimbursement of approximately \$2,100,000 for the eight-year period. The rate reconciliation has been accrued for as a change in estimate, and as a result, net patient service revenue for the years ended December 31, 2018 and 2017, increased by approximately \$118,000 and \$1,900,000, respectively, due to changes in the original estimate of Medicaid rural health clinic revenue from 2010 through 2017. For the year ended December 31, 2018, the District has estimated a receivable of approximately \$161,000 for the rate reconciliation.

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.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

10. Net Patient Service Revenue (continued):

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection 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 2018 and 2017, were approximately \$357,000 and \$273,000, respectively.

11. Defined Contribution Plan:

The District sponsors and administers a defined contribution retirement plan. The Prowers Medical Center Employees' Pension Plan (the Plan) is available to all employees who have completed one year of service. In the first year of employment, employees may choose to make pre-tax contributions as a percentage of their gross pay, up to 4 percent. After one year of service, the District will match half of the employees' voluntary contributions up to 4 percent. This matching contribution is in addition to the base 1 percent District contribution for all eligible employees, regardless of whether the employee chooses to make any additional voluntary contributions. Employees are permitted to make contributions up to the applicable Internal Revenue Code limits.

Vesting is based on years of credited service as set forth in the following table. Service prior to the date in which an employee becomes a participant in the Plan does not qualify for vesting purposes. A participant will become 100 percent vested immediately upon early retirement, attainment of normal retirement age, or death.

| Participant's Years of Service | Vested Percentage |
|---|------------------------------|
| Less than 1 | 0% |
| 1 | 20% |
| 2 | 40% |
| 3 | 60% |
| 4 | 80% |
| 5 or more | 100% |

Nonvested accounts are forfeited to the Plan and can be used to reduce future employer contributions.

The District has the authority to amend the Plan.

Employee contributions to the Plan during the years ended December 31, 2018 and 2017, were approximately \$546,000 and \$552,000, respectively. The District made matching contributions to the Plan of approximately \$197,000 and \$204,000 for the years ended December 31, 2018 and 2017, respectively.

The District had no liability to the Plan at December 31, 2018 and 2017.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

12. Commitments:

The District entered into a management contract with Quorum Health Resources, LLC (QHR) on May 23, 2008, for the management, administration, and operation of the District. The agreement calls for the District to pay QHR an annual base fee, with a provision for annual increases based on the changes in the Consumer Price Index and pass-through salaries and benefit costs for management. The term of the agreement extends through December 31, 2022. The District's estimated future commitment to QHR for management fees and executive salaries is approximately \$3,736,000.

Total payments to QHR under the management contract during the years ended December 31, 2018 and 2017, were approximately \$783,000 and \$787,000, respectively.

13. Contingencies:

Medical malpractice claims – The District has professional liability insurance with National Fire & Marine Insurance Company. The policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policies. If there are unreported incidents which result in a malpractice claim in the current year, such claims would be covered in the year the claim was reported to the insurance carrier only if the District purchased claims-made insurance in that year or the District purchased “tail” insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy. The malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has a \$25,000 deductible per claim.

The District also holds an excess coverage policy with National Fire & Marine Insurance Company. The excess coverage policy provides coverage with an annual aggregate limit of \$5,000,000. The policy has no deductible.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; 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 in any of the three preceding years.

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, and 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. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, 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.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

13. Contingencies (continued):

Taxpayer’s Bill of Rights – Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment’s language in order to determine its compliance.

Litigation – The District is also involved in litigation and regulatory investigations arising in the normal course of business. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

14. Concentration of Risk:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Prowers and Baca Counties.

The mix of receivables from patients was as follows:

| | 2018 | 2017 |
|--------------------------|--------------|-------------|
| Medicare | 33 % | 33 % |
| Medicaid | 20 | 23 |
| Other third-party payors | 23 | 24 |
| Patients | 24 | 20 |
| | 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 hospital operations.

15. Budget and Actual Revenues and Expenses:

The District overspent its approved budgeted expenditures by \$1,133,352 in 2018.

SUPPLEMENTAL INFORMATION

Prowers County Hospital District
doing business as Prowers Medical Center
Schedule of Budget and Actual Revenues and Expenses
Year Ended December 31, 2018

| | Actual | Original and Final Approved Budget | Favorable (Unfavorable) Variance |
|--|---------------------|--|--|
| <i>Operating revenues</i> | | | |
| Net patient service revenue | \$ 31,025,905 | \$ 29,734,000 | \$ 1,291,905 |
| Grants | 53,283 | - | 53,283 |
| Other | 158,156 | 274,000 | (115,844) |
| Total operating revenues | 31,237,344 | 30,008,000 | 1,229,344 |
| <i>Operating expenses</i> | | | |
| Salaries, wages, and employee benefits | 14,263,343 | 14,534,000 | 270,657 |
| Professional fees and other purchased services | 5,891,468 | 5,232,000 | (659,468) |
| Supplies | 4,538,289 | 3,598,000 | (940,289) |
| Depreciation | 1,354,935 | 1,521,000 | 166,065 |
| Provider fees | 931,446 | 900,000 | (31,446) |
| Other | 2,119,871 | 2,181,000 | 61,129 |
| Total operating expenses | 29,099,352 | 27,966,000 | (1,133,352) |
| <i>Operating income</i> | 2,137,992 | 2,042,000 | 95,992 |
| <i>Nonoperating revenues (expenses)</i> | | | |
| Property taxes | 416,022 | 391,000 | 25,022 |
| Investment income | 80,467 | - | 80,467 |
| Contributions | 1,691 | - | 1,691 |
| Gain on disposal of capital assets | 2,350 | - | 2,350 |
| Total nonoperating revenues, net | 500,530 | 391,000 | 109,530 |
| Change in net position | \$ 2,638,522 | \$ 2,433,000 | \$ 205,522 |

See accompanying independent auditors' report.