

**Eastern Rio Blanco County
Health Service District
doing business as
Pioneers Medical Center**

Basic Financial Statements and
Independent Auditors' Report

December 31, 2019 and 2018



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Meeker, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern Rio Blanco County Health Service District doing business as Pioneers Medical Center (the District) as of and for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019 the District early implemented Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has not presented 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 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.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 financial statements as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 6, 2020

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Net Position
December 31, 2019 and 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2019	2018
<i>Current assets</i>		
Cash and cash equivalents	\$ 9,909,473	\$ 4,125,017
Investments	2,088,810	5,849,356
Receivables:		
Patient accounts	2,050,229	3,486,900
Property tax levy	4,255,117	4,267,407
Estimated third-party payor settlements	515,592	419,000
340b contract pharmacy	251,906	225,719
Other	14,626	77,277
Inventories	671,073	443,035
Prepaid expenses	442,212	219,103
Total current assets	20,199,038	19,112,814
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted for debt service reserve	5,040,190	5,113,597
Cash and cash equivalents restricted for construction	8,160,379	-
Investment in Western Healthcare Alliance	161,757	161,757
Capital assets, net	37,187,328	37,645,957
Total noncurrent assets	50,549,654	42,921,311
Total assets	70,748,692	62,034,125
<i>Deferred outflows of resources, deferred charge on debt refunding</i>	939,147	-
Total assets and deferred outflows of resources	\$ 71,687,839	\$ 62,034,125

See accompanying notes to basic financial statements.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Net Position (Continued)
December 31, 2019 and 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2019	2018
<i>Current liabilities</i>		
Accounts payable	\$ 456,826	\$ 1,084,744
Accrued compensation and related liabilities	811,135	749,397
Current maturities of long-term debt	1,204,451	2,152,248
Total current liabilities	2,472,412	3,986,389
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	33,307,199	23,227,761
Total liabilities	35,779,611	27,214,150
<i>Deferred inflows of resources, tax revenue</i>	4,255,117	4,267,407
<i>Net position</i>		
Net investment in capital assets	10,836,057	12,265,948
Restricted by creditor	5,040,190	5,113,597
Unrestricted	15,776,864	13,173,023
Total net position	31,653,111	30,552,568
Total liabilities, deferred inflows of resources, and net position	\$ 71,687,839	\$ 62,034,125

See accompanying notes to basic financial statements.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
<i>Operating revenues</i>		
Net patient service revenue	\$ 23,478,109	\$ 19,746,440
Grants	74,642	70,389
Other revenue	367,285	222,033
Total operating revenues	23,920,036	20,038,862
<i>Operating expenses</i>		
Salaries and wages	9,081,865	8,150,397
Employee benefits	3,473,400	3,371,481
Professional fees and other purchased services	4,952,485	4,236,133
Supplies	2,449,201	2,331,092
Utilities	520,577	594,691
Depreciation	3,932,266	4,063,194
Insurance	116,681	97,924
Leases and rentals	20,308	24,867
Repairs and maintenance	612,849	603,519
Provider fees	311,143	293,890
Other	638,751	517,344
Total operating expenses	26,109,526	24,284,532
<i>Operating loss</i>	(2,189,490)	(4,245,670)
<i>Nonoperating revenues (expenses)</i>		
Property taxes	4,447,588	4,558,999
Contributions	6,052	106,266
Gain on disposal of assets	144,246	-
Tax collection expense	(213,127)	(219,996)
Investment income	198,626	138,646
Interest expense	(1,402,208)	(1,009,363)
Total nonoperating revenues, net	3,181,177	3,574,552
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	991,687	(671,118)
<i>Capital grants and contributions</i>	108,856	127,000
Change in net position	1,100,543	(544,118)
Net position, beginning of year	30,552,568	31,096,686
Net position, end of year	\$ 31,653,111	\$ 30,552,568

See accompanying notes to basic financial statements.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 24,792,001	\$ 19,900,453
Grants	74,642	70,389
Electronic health records incentive payment	-	1,083,229
Other receipts	429,936	245,917
Payments to and on behalf of employees	(12,493,527)	(11,506,476)
Payments to suppliers and contractors	(10,701,060)	(8,674,873)
Net cash provided by operating activities	2,101,992	1,118,639
<i>Cash flows from noncapital financing activities</i>		
Property taxes	4,447,588	4,558,999
Payments for tax collection	(213,127)	(219,996)
Contributions received	6,052	30,000
Net cash provided by noncapital financing activities	4,240,513	4,369,003
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(25,868,359)	(2,118,424)
Proceeds from issuance of debt	35,000,000	-
Purchase of capital assets	(3,473,637)	(518,604)
Interest paid on long-term debt	(1,402,208)	(1,009,363)
Capital grants and contributions	108,856	127,000
Prepayment penalty on long-term debt refinancing	(939,147)	-
Proceeds from sale of capital assets	144,246	-
Net cash provided by (used in) capital and related financing activities	3,569,751	(3,519,391)
<i>Cash flows from investing activities</i>		
Purchase of investments	(842,420)	(2,091,207)
Sale of investments	4,618,699	756,647
Investment income	177,560	107,559
Distributions from Western Healthcare Alliance	5,333	21,342
Net cash provided by (used in) investing activities	3,959,172	(1,205,659)
Net increase in cash and cash equivalents	13,871,428	762,592
Cash and cash equivalents, beginning of year	9,238,614	8,476,022
Cash and cash equivalents, end of year	\$ 23,110,042	\$ 9,238,614

See accompanying notes to basic financial statements.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents in current assets	\$ 9,909,473	\$ 4,125,017
Cash and cash equivalents restricted for debt service reserve	5,040,190	5,113,597
Cash and cash equivalents restricted for construction	8,160,379	-
Total cash and cash equivalents	\$ 23,110,042	\$ 9,238,614
<i>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</i>		
Operating loss	\$ (2,189,490)	\$ (4,245,670)
<i>Adjustments to reconcile operating loss to net cash provided by operating activities</i>		
Depreciation	3,932,266	4,063,194
Provision for bad debts	882,299	1,131,745
(Increase) decrease in assets:		
Receivables:		
Patient accounts	554,372	(1,519,419)
Electronic health records incentive payment	-	1,083,229
Estimated third-party payor settlements	(96,592)	683,000
340b contract pharmacy	(26,187)	(81,719)
Other	62,651	23,884
Inventories	(228,038)	35,872
Prepaid expenses	(223,109)	(76,668)
Increase (decrease) in liabilities:		
Accounts payable	(627,918)	5,789
Accrued compensation and related liabilities	61,738	15,402
Net cash provided by operating activities	\$ 2,101,992	\$ 1,118,639

See accompanying notes to basic financial statements.

**Eastern Rio Blanco County Health Service District
 doing business as Pioneers Medical Center
 Notes to Basic Financial Statements
 Years Ended December 31, 2019 and 2018**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Eastern Rio Blanco County Health Service District doing business as Pioneers Medical Center (the District) is an independent governmental entity organized under provisions of the Colorado Revised Statutes. It operates within eastern Rio Blanco County (the County) but is not part of the County government. As organized, the District is exempt from paying federal income tax. The Board of Directors consists of seven elected residents of the County.

The District operates a licensed 10-bed hospital, 30-bed skilled nursing facility, rural health clinic, and a home health agency in Meeker, Colorado. The services provided include medical-surgical, pediatrics, surgery, emergency room, clinic, long-term care, and the related ancillary services (laboratory, imaging, cardiology, physical therapy, respiratory therapy, etc.).

b. Summary of Significant Accounting Policies

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

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

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

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

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.

Capital assets – The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least three years. Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses as incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method.

Useful lives are estimated as follows:

Land improvements	10 to 15 years
Buildings and improvements	5 to 40 years
Equipment	3 to 20 years

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

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

b. Summary of Significant Accounting Policies (continued)

Accrued compensated absences – Employees earn paid time off on regular hours actually worked at varying rates depending on years of service. The percentage of paid time off accrued ranges from 10 percent to 16 percent of the regular hours worked. Employees may accrue a maximum of 400 hours of paid time off. Amounts in excess of 200 hours may be redeemed for up to 40 hours. All paid time off is accrued and expensed when earned.

Net position – The 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*.

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 and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

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.

Grants and contributions – From time to time, the District receives federal, state, and county 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. Grants that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Grants that are used to subsidize operating deficits are reported as nonoperating revenues. Contributions, except for capital contributions, are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Reclassifications – Certain amounts have been reclassified in the 2018 financial statements in order to be consistent with the 2019 financial statements. These reclassifications had no effect on the previously reported change in net position.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

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

b. Summary of Significant Accounting Policies (continued)

New accounting standard pronouncements - In June 2018, the Governmental Accounting Standards Board (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 reporting periods beginning after December 15, 2019. The District has elected to implement this statement early for the year ended December 31, 2019.

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

Subsequent events – Subsequent events have been reviewed through April 6, 2020, the date on which the financial statements were available to be issued.

2. Bank Deposits and Investments:

Deposits:

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

The District’s deposits 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.

Investments:

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.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

2. Bank Deposits and Investments (continued):

Investments (continued):

Custodial credit risk – Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District will not be able to recover the value of the deposits or investments that are in the possession of an outside party. The District’s investment policy does not contain policy requirements that would limit the exposure to custodial credit risk for investments.

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization. The District has a policy specifically requiring or limiting investments of this type.

Concentration of credit risk – Concentration of credit risk is the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District has a policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – Interest rate risk is the risk that changes in market interest rates could adversely affect an investment’s fair value. The District has a policy specifically managing its exposure to fair value losses arising from changing interest rates.

The District’s investments consisted of:

2019							S&P Ratings
	Fair Value	No Maturity	Investment Maturities in Years				
			Less than 1	1 to 5	Over 5		
Money market funds	\$ 44,353	\$ 44,353	\$ -	\$ -	\$ -	-	Not applicable
Fannie Mae bonds	998,777	-	998,777	-	-	-	AA+
Real assets - mineral rights	220,000	220,000	-	-	-	-	Not applicable
Certificate of Deposit	800,000	-	800,000	-	-	-	Not applicable
Air Ambulance	25,680	25,680	-	-	-	-	Not applicable
	\$ 2,088,810	\$ 290,033	\$ 1,798,777	\$ -	\$ -	-	

2018							Investment Ratings
	Fair Value	No Maturity	Investment Maturities in Years				
			Less than 1	1 to 5	Over 5		
Money market funds	\$ 2,106,857	\$ 2,106,857	\$ -	\$ -	\$ -	-	Not applicable
Freddie Mac bonds	1,483,446	-	-	1,483,446	-	-	AA+
Fannie Mae bonds	979,310	-	-	979,310	-	-	AA+
Real assets - mineral rights	275,000	275,000	-	-	-	-	Not applicable
United States Treasury Note	979,063	-	979,063	-	-	-	Not applicable
Air Ambulance	25,680	25,680	-	-	-	-	Not applicable
	\$ 5,849,356	\$ 2,407,537	\$ 979,063	\$ 2,462,756	\$ -	-	

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

2. Bank Deposits and Investments (continued):

Investments (continued):

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. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District has the following recurring fair value measurements as of December 31, 2019 and 2018:

- Money market funds are valued using quoted market prices (Level 1).
- Bonds and certificates of deposit are valued using observable inputs from similar investments (Level 2).
- Real assets and investments in mineral rights are valued using discounted estimated future cash flows (Level 3).

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients has increased from the prior year's as the District experienced a decline in the amount of collections on self-pay accounts at the beginning of 2020 due to the COVID-19 coronavirus pandemic. 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.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

3. Patient Accounts Receivable (continued):

Patient accounts receivable reported as current assets, consisted of these amounts:

	2019	2018
Receivable from patients and their insurance carriers	\$ 1,618,123	\$ 2,941,043
Receivable from Medicare	1,139,800	923,265
Receivable from Medicaid	186,318	234,437
Total patient accounts receivable	2,944,241	4,098,745
Less allowance for uncollectible accounts	894,012	611,845
Patient accounts receivable, net	\$ 2,050,229	\$ 3,486,900

4. Capital Assets:

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

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 303,490	\$ -	\$ -	\$ -	\$ 303,490
Construction in progress	89,802	1,965,904	-	(89,802)	1,965,904
Total capital assets not being depreciated	393,292	1,965,904	-	(89,802)	2,269,394
<i>Capital assets being depreciated</i>					
Land improvements	8,843,732	-	-	-	8,843,732
Building and improvements	21,827,404	-	-	-	21,827,404
Equipment	24,502,989	1,507,733	-	89,802	26,100,524
Total capital assets being depreciated	55,174,125	1,507,733	-	89,802	56,771,660
<i>Less accumulated depreciation for</i>					
Land improvements	(2,285,298)	(1,018,802)	-	-	(3,304,100)
Building and improvements	(5,835,169)	(814,124)	-	-	(6,649,293)
Equipment	(9,800,993)	(2,099,340)	-	-	(11,900,333)
Total accumulated depreciation	(17,921,460)	(3,932,266)	-	-	(21,853,726)
Total capital assets being depreciated, net	37,252,665	(2,424,533)	-	89,802	34,917,934
Capital assets, net of accumulated depreciation	\$ 37,645,957	\$ (458,629)	\$ -	\$ -	\$ 37,187,328

Construction in progress at December 31, 2019, consisted of the costs of the first phase of construction for the expansion of the operating room and surgical suites. The expansion is expected to cost approximately \$9,000,000, which has been financed through the refinance of an existing loan, detailed at Note 5, and will be completed in July 2020.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

4. Capital Assets (continued):

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
<i>Capital assets not being depreciated</i>					
Land	\$ 315,400	\$ -	\$ -	\$ (11,910)	\$ 303,490
Construction in progress	-	89,802	-	-	89,802
Total capital assets not being depreciated	315,400	89,802	-	(11,910)	393,292
<i>Capital assets being depreciated</i>					
Land improvements	8,831,822	-	-	11,910	8,843,732
Building and improvements	21,827,404	-	-	-	21,827,404
Equipment	24,074,187	428,802	-	-	24,502,989
Total capital assets being depreciated	54,733,413	428,802	-	11,910	55,174,125
<i>Less accumulated depreciation for</i>					
Land improvements	(1,868,256)	(417,042)	-	-	(2,285,298)
Building and improvements	(3,917,409)	(1,917,760)	-	-	(5,835,169)
Equipment	(8,072,601)	(1,728,392)	-	-	(9,800,993)
Total accumulated depreciation	(13,858,266)	(4,063,194)	-	-	(17,921,460)
Total capital assets being depreciated, net	40,875,147	(3,634,392)	-	11,910	37,252,665
Capital assets, net of accumulated depreciation	\$ 41,190,547	\$ (3,544,590)	\$ -	\$ -	\$ 37,645,957

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

5. Long-term Debt:

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

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Amounts Due Within One Year
<i>Long-term debt</i>	\$ 25,380,009	\$ 35,000,000	\$ (25,868,359)	\$ 34,511,650	\$ 1,204,451

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Amounts Due Within One Year
<i>Long-term debt</i>	\$ 27,498,433	\$ -	\$ (2,118,424)	\$ 25,380,009	\$ 2,152,248

Long-term Debt – 2013 Lease Agreement – The 2013 Lease Agreement, in the original amount of \$35,000,000 from Western Alliance Bank and First National Bank under a lease agreement with the Zion's National Bank (Zions), used to construct a new hospital building was refinanced into the 2019 Lease Agreement in August 2019.

Long-term Debt – 2019 Lease Agreement – The 2019 Lease Agreement, in the original amount of \$35,000,000 from Bank of San Juans and Hilltop National Bank under a lease agreement with Zions, used to refund the 2013 Lease Agreement and provide funds for the expansion of the surgical suite. Monthly installments of \$155,507, including interest at 3.85 percent are due through August 2039. The lease agreement is collateralized by substantially all of the District's assets. The new lease agreement will increase debt service payments for the District by \$7,972,176 with an economic loss of \$5,560,448.

Upon payoff of the 2013 Lease Agreement, the District incurred a pre-payment penalty, which has been accounted for as a loss on debt refunding and reported as a deferred outflow of resources. This loss on debt refunding has been deferred and is being amortized over the remaining term of the 2013 Lease Agreement.

Under the terms of the 2019 Lease Agreement, the District is required to maintain certain deposits in a cash reserve fund. Such deposits are included with restricted cash in the statement of net position. The mortgage also places limits on the incurrence of additional borrowings and requires that the District satisfy certain measures of financial performance as long as the lease is outstanding. Under the terms of the lease agreement, the District has leased substantially all of the hospital facilities to Zions. Zions, in turn, subleases the facilities back to the District.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

5. Long-term Debt (continued):

Scheduled principal and interest repayments on the long-term debt are as follows:

Years Ending December 31,	Principal	Interest	Total
2020	\$ 1,204,451	\$ 1,307,592	\$ 2,512,043
2021	1,251,649	1,260,394	2,512,043
2022	1,300,697	1,211,346	2,512,043
2023	1,351,667	1,160,376	2,512,043
2024	1,404,635	1,107,409	2,512,044
2025 - 2029	7,893,245	4,666,972	12,560,217
2030 - 2034	9,565,848	2,994,369	12,560,217
2035 - 2039	10,539,458	974,075	11,513,533
	\$ 34,511,650	\$ 14,682,533	\$ 49,194,183

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

6. 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 provision for bad debts and writeoffs has decreased from the prior year as a significant amount of accounts were written off in the prior year with the implementation of a new computer system. The District has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018. 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, is as follows:

	2019	2018
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 8,736,021	\$ 7,779,076
Medicaid	2,180,796	2,010,709
Other third-party payors	11,582,343	8,837,535
Patients	710,706	1,202,169
340b contract pharmacy	368,671	509,304
Supplemental payments	862,472	629,348
	24,441,009	20,968,141
Less:		
Charity care	80,601	89,956
Provision for bad debts	882,299	1,131,745
Net patient service revenue	\$ 23,478,109	\$ 19,746,440

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 and the clinic a rural health clinic by Medicare. The District is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after the submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

6. Net Patient Service Revenue (continued):

- *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. 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 Medicaid. Physician services are reimbursed on a fee schedule.

The District also has 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.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$11,000 and increased by approximately \$52,000 in the years ended December 31, 2019 and 2018, respectively, due to differences between original estimates and final settlements.

During the year ended December 31, 2017, the District received notice that their Medicaid rural health clinic rates were 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 2016 through 2018 are being reprocessed, resulting in estimated additional reimbursement of approximately \$208,000. The rate reconciliation has accounted for a change in estimate, and as a result, net patient service revenue increased approximately \$57,000 and \$89,000 for the years ended December 31, 2019 and 2018, respectively, due to changes in the original estimate of Medicaid rural health clinic revenue from 2010 through 2017. For the year ended December 31, 2019, the District has estimated a receivable of approximately \$68,000 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.

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 December 31, 2019 and 2018, were approximately \$66,000 and \$84,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2019 and 2018.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

7. Property Taxes:

The Rio Blanco County Treasurer acts as an agent to assess and collect property taxes levied in the County for all taxing authorities. Property taxes are levied and assessed 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 all may be paid by April 30. The assessed property is subject to lien on the levy date. 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, 2019 and 2018, for taxes levied for 2020 and 2019, respectively.

For 2019, the District's regular tax levy was \$7.280 per \$1,000 on a total assessed valuation of \$584,494,160, for a total regular levy of \$4,255,177. For 2018, the District's regular tax levy was \$7.280 per \$1,000 on a total assessed valuation of \$585,608,650, for a total regular levy of \$4,263,230.

The District paid \$213,127 and \$219,996 in 2019 and 2018, respectively, to the Rio Blanco County Treasurer for assessment and collection of the tax levy.

8. Defined Contribution Plans:

The District sponsors a 401(a) defined contribution plan. The Eastern Rio Blanco County Health Service District 401(a) Plan (the 401(a) Plan) is mandatory for all eligible employees. Additionally, a 457 deferred compensation plan (the 457 Plan) is voluntary for all eligible participants who may defer a percentage of their compensation up to certain limits specified by the Internal Revenue Code. Participants are fully vested in their salary deferrals to the 457 Plan.

Under the 401(a) Plan, employees are required to contribute 6 percent of their gross income, which the District matches 100 percent. The participants are eligible for the employer matching contributions immediately if they work a minimum of 24 hours per week and are either part-time or full-time status. The matching contributions are allocated to the participants' accounts in the Colorado County Officials & Employees Retirement Association (CCOERA). Participants are vested depending on the years of service, ranging from zero percent for the first year to fully vested in the sixth year.

CCOERA administers both the 457 Plan and the 401(a) Plan.

Participant contributions to the 457 Plan during the years ended December 31, 2019 and 2018, were approximately \$139,000 and \$124,000, respectively. Participant contributions to the 401(a) Plan during the years ended December 31, 2019 and 2018, were approximately \$502,000 and \$473,000, respectively. The District made matching contributions to the 401(a) Plan of approximately \$442,000 and \$439,000 during the years ended December 31, 2019 and 2018, respectively.

Forfeitures of approximately \$60,000 and \$40,000, during the years ended December 31, 2019 and 2018, respectively, were used to reduce the District's contributions.

Benefit terms including contribution requirements are established and may be amended by the District. When a participant leaves employment prior to being fully vested, forfeitures are utilized against future employer contributions.

The District made all required funding payments during the year.

**Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018**

9. Commitment:

The District renewed a management contract with Quorum Health Resources, LLC (QHR) on May 30, 2017, for the management, administration, and operations of the District. The agreement calls for the District to pay QHR an annual base fee, with 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, 2023. Total payments to QHR during 2019 and 2018 were approximately \$315,000 and \$319,000, respectively. The District's future commitment to QHR for management fees is approximately \$1,309,000.

10. Risk Management and Contingencies:

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.

Medical malpractice claims – The District has professional liability insurance with COPIC Insurance Company (COPIC). 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, as well as past incidents that are reported during the current term. The malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has no deductible.

The District also purchases excess malpractice liability insurance through COPIC. COPIC provides protection on an “excess” basis whereby claims reported to the insurance carrier are only covered in excess of primary malpractice liability coverage. The COPIC excess liability limit is \$5,000,000 per claim with an annual aggregate limit of \$5,000,000. The policy has a \$10,000 deductible per claim.

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

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

Taxpayer's Bill of Rights – Colorado voters passed an amendment to the state constitution, Article X, Section 20, known as the *Taxpayer's Bill of Rights*. This amendment 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 this amendment. However, the District has made certain interpretations of the amendment's language in order to determine its compliance.

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

11. Concentration Risks:

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 mix of receivables from patients and third-party payors was as follows:

	2019	2018
Medicare	37 %	25 %
Medicaid	8	11
Other third-party payors	42	49
Patients	13	15
	100 %	100 %

Physicians – The District is dependent on local physicians and mid-level providers practicing in its service area to provide admission and utilize hospital services on an outpatient basis. A decrease in the number of providers or changes in their utilization patterns may have an adverse effect on hospital operations.

12. Budget and Actual Revenues and Expenses:

The District overspent its approved budget by \$434,626 and \$802,456 in 2019 and 2018, respectively.

13. Subsequent Events:

In March 2020, the Board approved a building project to expand the facility for a Magnetic Resonance Imaging (MRI) suite and to purchase an MRI machine. The building is expected to cost \$1,700,000 and will be financed with a loan. The MRI is expected to cost approximately \$980,000 and will be financed using a lease purchase agreement through the vendor.

The COVID-19 pandemic has created economic uncertainties which may negatively impact the District’s financial position. State and federal governments are considering emergency funding to help hospitals overcome these negative effects. The ultimate COVID-19 pandemic effect on the District’s financial position is unknown at this time.

SUPPLEMENTAL INFORMATION

Eastern Rio Blanco County Health Service District
doing business as Pioneers Medical Center
Schedule of Budget and Actual Revenues and Expenses
Year Ended December 31, 2018

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<i>Operating revenues</i>			
Net patient service revenue	\$ 24,052,700	\$ 23,478,109	\$ (574,591)
Grants	-	74,642	74,642
Other revenue	725,500	367,285	(358,215)
Total operating revenues	24,778,200	23,920,036	(858,164)
<i>Operating expenses</i>			
Salaries and wages	9,615,100	9,081,865	533,235
Employee benefits	4,199,100	3,473,400	725,700
Professional fees and other purchased services	3,093,000	4,952,485	(1,859,485)
Supplies	2,518,900	2,449,201	69,699
Utilities	654,400	520,577	133,823
Depreciation	4,042,800	3,932,266	110,534
Insurance	292,600	116,681	175,919
Leases, rentals, repairs, and maintenance	768,700	633,157	135,543
Other	490,300	949,894	(459,594)
Total operating expenses	25,674,900	26,109,526	(434,626)
<i>Operating loss</i>	(896,700)	(2,189,490)	(1,292,790)
<i>Nonoperating revenues (expenses)</i>			
Property taxes	4,531,900	4,447,588	(84,312)
Contributions	120,000	6,052	(113,948)
Gain on disposal of assets	3,000	144,246	141,246
Tax collection expense	(220,600)	(213,127)	7,473
Investment income	127,000	198,626	71,626
Interest expense	(958,400)	(1,402,208)	(443,808)
Total nonoperating revenues (expenses), net	3,602,900	3,181,177	(421,723)
Excess of revenues over expenses before capital grants and contributions	2,706,200	991,687	(1,714,513)
<i>Capital grants and contributions</i>	-	108,856	108,856
Change in net position	\$ 2,706,200	\$ 1,100,543	\$ (1,605,657)

See accompanying independent auditors' report.