

# **Kremmling Memorial Hospital District**

Basic Financial Statements and  
Independent Auditors' Report

December 31, 2019 and 2018



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

**Kremmling Memorial Hospital District  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Kremmling Memorial Hospital District  
Kremmling, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Kremmling Memorial Hospital District (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 14 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 14. Our opinion is not modified with respect to this matter.

## **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 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 financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

### *Other Information*

Our audits were 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.

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  
September 15, 2020

**Kremmling Memorial Hospital District**  
**Statements of Net Position**  
**December 31, 2019 and 2018**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2019</b>	<b>2018</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,969,200	\$ 2,780,292
Receivables:		
Patient accounts, net of estimated uncollectibles	5,940,082	5,537,769
Property taxes	946,763	939,932
Inventories	753,843	654,880
Prepaid expenses and other current assets	677,966	360,059
Total current assets	<b>11,287,854</b>	<b>10,272,932</b>
<i>Noncurrent assets</i>		
Assets limited as to use, cash and cash equivalents	3,352,012	3,061,166
Capital assets, net	20,464,011	16,773,588
Total noncurrent assets	<b>23,816,023</b>	<b>19,834,754</b>
 Total assets	 <b>35,103,877</b>	 <b>30,107,686</b>
 <i>Deferred outflows of resources, deferred charge on debt refunding</i>	 <b>628,198</b>	 <b>649,138</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 35,732,075</b>	<b>\$ 30,756,824</b>

*See accompanying notes to basic financial statements.*

**Kremmling Memorial Hospital District  
Statements of Net Position (Continued)  
December 31, 2019 and 2018**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>2019</b>	<b>2018</b>
<i>Current liabilities</i>		
Accounts payable	\$ 905,411	\$ 1,332,417
Construction accounts payable	450,984	-
Accrued compensation and related liabilities	2,438,206	1,924,449
Current maturities of long-term debt	2,947,200	434,971
Current maturities of capital lease obligations	97,870	115,895
Refunds payable	776,855	575,154
Interest payable	87,049	75,974
Estimated third-party payor settlements	47,436	558,400
Total current liabilities	7,751,011	5,017,260
<i>Capital lease obligations, net of current maturities</i>	162,964	265,103
<i>Long-term debt, net of current maturities</i>	21,896,079	22,343,279
Total liabilities	29,810,054	27,625,642
<i>Deferred inflows of resources, property tax levy</i>	939,853	934,096
Total liabilities and deferred inflows of resources	30,749,907	28,559,738
<i>Net position</i>		
Net investment in capital assets	(4,549,937)	(5,812,496)
Unrestricted	6,577,147	7,663,402
Restricted	2,954,958	346,180
Total net position	4,982,168	2,197,086
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 35,732,075</b>	<b>\$ 30,756,824</b>

*See accompanying notes to basic financial statements.*

**Kremmling Memorial Hospital District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts	\$ 37,178,908	\$ 32,118,351
Grants	36,039	17,015
Other	252,190	268,692
<b>Total operating revenues</b>	<b>37,467,137</b>	<b>32,404,058</b>
<i>Operating expenses</i>		
Salaries and wages	16,573,645	15,796,269
Employee benefits	5,005,609	4,182,768
Professional fees and other purchased services	6,313,650	4,914,845
Supplies	3,044,234	2,542,623
Depreciation and amortization	1,608,861	1,612,624
Insurance	244,579	243,393
Utilities	468,307	475,619
Repairs and maintenance	136,159	72,086
Leases and rentals	315,125	355,676
Provider fees	617,491	735,707
Other	531,759	464,849
<b>Total operating expenses</b>	<b>34,859,419</b>	<b>31,396,459</b>
<i>Operating income</i>	<b>2,607,718</b>	<b>1,007,599</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	1,010,750	986,701
Interest income	19,830	3,111
Gain on sale of capital assets	-	298,142
Interest expense	(853,216)	(817,342)
<b>Total nonoperating revenues, net</b>	<b>177,364</b>	<b>470,612</b>
Change in net position	2,785,082	1,478,211
Net position, beginning of year	2,197,086	718,875
<b>Net position, end of year</b>	<b>\$ 4,982,168</b>	<b>\$ 2,197,086</b>

*See accompanying notes to basic financial statements.*

**Kremmling Memorial Hospital District**  
**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	\$ 36,467,332	\$ 32,212,295
Grant revenue	36,039	17,015
Other receipts	252,190	268,692
Payments to and on behalf of employees	(21,065,497)	(19,676,903)
Payments to suppliers and contractors	(12,515,180)	(10,414,625)
Net cash provided by operating activities	3,174,884	2,406,474
<i>Cash flows from noncapital financing activities</i>		
Taxation for operations	1,009,676	1,014,972
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(4,848,300)	(1,361,892)
Proceeds from sale of capital assets	-	633,085
Principal paid on capital lease obligations	(120,164)	(115,104)
Principal paid on long-term debt	(434,971)	(421,171)
Interest paid on long-term debt	(821,201)	(799,126)
Proceeds from the issuance of long-term debt	2,500,000	-
Net cash used in capital and related financing activities	(3,724,636)	(2,064,208)
<i>Cash flows from investing activities</i>		
Interest income	19,830	3,111
Net increase in cash and cash equivalents	479,754	1,360,349
Cash and cash equivalents, beginning of year	5,841,458	4,481,109
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,321,212</b>	<b>\$ 5,841,458</b>

*See accompanying notes to basic financial statements.*

**Kremmling Memorial Hospital District  
Statements of Cash Flows (Continued)  
Years Ended December 31, 2019 and 2018**

	2019	2018
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents in current assets	\$ 2,969,200	\$ 2,780,292
Assets limited as to use, cash and cash equivalents	3,352,012	3,061,166
<b>Total cash and cash equivalents</b>	<b>\$ 6,321,212</b>	<b>\$ 5,841,458</b>
<b><i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i></b>		
Operating income	\$ 2,607,718	\$ 1,007,599
<i>Adjustments to reconcile operating income to net cash provided by operating activities:</i>		
Depreciation and amortization	1,608,861	1,612,624
Provision for bad debts	3,410,859	7,339,793
(Increase) decrease in assets:		
Patient accounts receivable, net	(3,813,172)	(7,517,185)
Inventories	(98,963)	(31,071)
Prepaid expenses and other current assets	(317,907)	32,379
Increase (decrease) in liabilities:		
Accounts payable	(427,006)	(611,135)
Refunds payable	201,701	559,785
Accrued compensation and related liabilities	513,757	302,134
Estimated third-party payor settlements	(510,964)	(288,449)
<b>Net cash provided by operating activities</b>	<b>\$ 3,174,884</b>	<b>\$ 2,406,474</b>

***Noncash Capital and Related Financing Activities***

The District financed \$-0- and \$75,881 of equipment through capital lease obligations with various lessors in 2019 and 2018, respectively.

*See accompanying notes to basic financial statements.*

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2019 and 2018**

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

**a. Reporting Entity**

Kremmling Memorial Hospital District (the District) has a 19-bed critical care hospital, located in Kremmling, Colorado; a 2-bed critical care hospital, located in Granby, Colorado; and rural health clinics located in Kremmling, Granby, Grand Lake, Walden, and Winter Park, Colorado. The District provides healthcare services to Grand, Summit, and Jackson Counties. The District was created in 1973 as a political subdivision of the state of Colorado. As a political subdivision of the state of Colorado, the District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The District is governed by a Board of Directors consisting of five members elected by the residents of the District. The District is not a component unit of another government entity. The District does not have any material component units.

The District provides management services for the operation of Cliffview Assisted Living Center under a management contract with the Grand County Housing Authority. Cliffview Assisted Living Center is not considered a component unit of the District.

**b. Summary of Significant Accounting Policies**

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

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

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

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

***Assets limited as to use*** – Assets limited as to use include assets held by the trustee under indenture agreement for debt reserve requirements and designated by the Board for capital asset acquisitions.

**Kremmling Memorial Hospital District  
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)**

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

Estimated useful lives are as follows:

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

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

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

**Operating revenues and expenses** – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s 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.

**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.

**Kremmling Memorial Hospital District  
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)**

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

**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, 2022, 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 statement is effective for the District’s year ending December 31, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

**Subsequent events** – The District has evaluated subsequent events and transactions through September 15, 2020, the date on which the financial statements were available to be issued.

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**2. Bank Deposits and Investments:**

*Deposits* – The Colorado Public Deposit Protection Act (CPDPA) requires financial institutions to collateralize any uninsured public deposits. The bank balance at each institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Any excess of deposits over the FDIC limit not insured is covered by collateral pledged by the financial institution in accordance with the CPDPA.

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 U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, banker's acceptance notes, commercial paper, repurchase agreements, money market funds, and guaranteed investment contracts. All investments must be held by the District, in its name, or in custody of a third-party on behalf of the local government. The District had no investments at December 31, 2019 and 2018.

**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 increased from the prior year due to an increase in accounts receivable from self-pay patients due to a system conversion. 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.

**Kremmling Memorial Hospital District  
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 by the District were as follows:

	<b>2019</b>	<b>2018</b>
Receivable from patients and their insurance carriers	\$ 9,690,922	\$ 6,695,568
Receivable from Medicare	911,558	1,361,130
Receivable from Medicaid	118,275	475,071
Total patient accounts receivable	10,720,755	8,531,769
Less allowance for uncollectible accounts	(4,780,673)	(2,994,000)
<b>Patient accounts receivable, net</b>	<b>\$ 5,940,082</b>	<b>\$ 5,537,769</b>

**4. Assets Limited as to Use:**

The composition of assets limited as to use reported by the District consisted of the following amounts:

	<b>2019</b>	<b>2018</b>
<i>Noncurrent assets</i>		
Cash and cash equivalents:		
Under debt agreements for debt reserve	\$ 2,954,958	\$ 346,180
Board designated for future capital projects	397,054	2,714,986
<b>Total assets limited as to use</b>	<b>\$ 3,352,012</b>	<b>\$ 3,061,166</b>

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**5. Capital Assets:**

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

	<b>Balance December 31, 2018</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance December 31, 2019</b>
<i>Capital assets not being depreciated</i>					
Land	\$ 1,909,567	\$ 2,631,886	\$ -	\$ -	\$ 4,541,453
Construction in progress	187,211	1,742,431	-	(32,275)	1,897,367
Total capital assets not being depreciated	2,096,778	4,374,317	-	(32,275)	6,438,820
<i>Capital assets being depreciated</i>					
Land improvements	572,712	-	-	-	572,712
Buildings and improvements	15,635,677	188,119	-	-	15,823,796
Equipment	10,915,195	736,848	-	32,275	11,684,318
Total capital assets being depreciated	27,123,584	924,967	-	32,275	28,080,826
<i>Less accumulated depreciation for</i>					
Land improvements	220,773	30,973	-	-	251,746
Buildings and improvements	4,790,554	522,940	-	-	5,313,494
Equipment	7,435,447	1,054,948	-	-	8,490,395
Total accumulated depreciation	12,446,774	1,608,861	-	-	14,055,635
<i>Total capital assets being depreciated, net</i>	14,676,810	(683,894)	-	32,275	14,025,191
<b>Capital assets, net</b>	<b>\$ 16,773,588</b>	<b>\$ 3,690,423</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,464,011</b>

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**5. Capital Assets (continued):**

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
<i>Capital assets not being depreciated</i>					
Land	\$ 1,994,992	\$ 102,140	\$ (187,565)	\$ -	\$ 1,909,567
Construction in progress	13,374	306,527	-	(132,690)	187,211
Total capital assets not being depreciated	2,008,366	408,667	(187,565)	(132,690)	2,096,778
<i>Capital assets being depreciated</i>					
Land improvements	572,712	-	-	-	572,712
Buildings and improvements	15,642,189	391,719	(398,231)	-	15,635,677
Equipment	10,393,811	520,794	(132,100)	132,690	10,915,195
Total capital assets being depreciated	26,608,712	912,513	(530,331)	132,690	27,123,584
<i>Less accumulated depreciation for</i>					
Land improvements	189,800	30,973	-	-	220,773
Buildings and improvements	4,550,923	492,677	(253,046)	-	4,790,554
Equipment	6,445,973	1,088,974	(99,500)	-	7,435,447
Total accumulated depreciation	11,186,696	1,612,624	(352,546)	-	12,446,774
<i>Total capital assets being depreciated, net</i>	15,422,016	(700,111)	(177,785)	132,690	14,676,810
<b>Capital assets, net</b>	<b>\$ 17,430,382</b>	<b>\$ (291,444)</b>	<b>\$ (365,350)</b>	<b>\$ -</b>	<b>\$ 16,773,588</b>

Construction in progress as of December 31, 2019, is composed of costs related to a plan to remodel the hospital facilities in Kremmling, expand the hospital facilities in Granby, and construct a clinic in Fraser. The project is estimated to cost approximately \$25 million and the estimated completion is summer of 2022. This project will be financed through the issuance of new long-term debt. See Note 15.

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**6. Healthcare Self-insurance:**

The District partially self-insures the cost of employee healthcare benefits as it purchases annual stop-loss insurance coverage for all claims in excess of \$50,000 per claim. Liabilities on the statements of net position include an accrual for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors. The District's self-insurance is recorded in accrued compensation and related liabilities.

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

	<b>2019</b>	<b>2018</b>
Claim liability, beginning of year	\$ 273,325	\$ 279,387
Current year claims and changes in estimates	4,463,754	3,121,543
Claims payments	<b>(4,173,638)</b>	<b>(3,127,605)</b>
<b>Claim liability, end of year</b>	<b>\$ 563,441</b>	<b>\$ 273,325</b>

**7. Long-term Debt and Capital Lease Obligations:**

A schedule of changes in the District's long-term debt and capital lease obligations follows:

	<b>Balance December 31, 2018</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance December 31, 2019</b>	<b>Amounts Due Within One Year</b>
Series 2015 revenue bonds	\$ 22,778,250	\$ -	\$ (434,971)	\$ 22,343,279	\$ 447,200
Note payable	-	2,500,000	-	2,500,000	2,500,000
Capital lease obligations	380,998	-	(120,164)	260,834	97,870
<b>Total long-term debt</b>	<b>\$ 23,159,248</b>	<b>\$ 2,500,000</b>	<b>\$ (555,135)</b>	<b>\$ 25,104,113</b>	<b>\$ 3,045,070</b>

	<b>Balance December 31, 2017</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance December 31, 2018</b>	<b>Amounts Due Within One Year</b>
Series 2015 revenue bonds	\$ 23,199,421	\$ -	\$ (421,171)	\$ 22,778,250	\$ 434,971
Capital lease obligations	420,221	75,881	(115,104)	380,998	115,895
<b>Total long-term debt</b>	<b>\$ 23,619,642</b>	<b>\$ 75,881</b>	<b>\$ (536,275)</b>	<b>\$ 23,159,248</b>	<b>\$ 550,866</b>

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

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

The terms and due dates of the District's long-term debt and capital lease obligations are as follows:

- Kremmling Memorial Hospital District Hospital Facilities Revenue Bonds Series 2015 (the 2015 Bonds), issued through the Rural Housing Service of the United States Department of Agriculture, in the original amount of \$24,000,000, dated November 2015. The 2015 Bonds are payable from the fees, rates and charges for services, programs, and facilities furnished by the District. The 2015 Bonds are payable in annual principal installments ranging from \$447,200 to \$1,126,393, plus interest of 3.25 percent through December 2050.

The 2015 Bonds include financial covenants that must be complied with as a condition of the bonds.

- Note payable to Grand Mountain Bank, in the original amount of \$2,500,000, interest payments at 3.5 percent are due monthly through September 30, 2020. On September 30, 2020, a balloon payment representing remaining principal and interest is due. This note was issued for the purpose of financing the construction project until a construction loan was obtained (see Note 5).
- Capital lease obligations, at varying rates of imputed interest, ranging from 2.29 percent to 10.40 percent, collateralized by the related equipment with maturity dates ranging from 2020 to 2022.

The capital lease obligations are reflected in the District's assets and liabilities. The assets acquired under the capital leases had a capitalized cost of \$551,607 and \$541,519 as of December 31, 2019 and 2018, respectively, and accumulated amortization of \$250,885 and \$185,425 as of December 31, 2019 and 2018, respectively. Amortization expense is included in depreciation expense on the statements of revenues, expenses, and changes in net position.

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

Years Ending December 31,	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2020	\$ 2,947,200	\$ 811,980	\$ 97,870	\$ 6,683
2021	463,874	707,806	90,672	3,202
2022	479,072	692,608	72,292	826
2023	494,769	676,911	-	-
2024	509,128	662,552	-	-
2025-2029	2,815,231	3,043,169	-	-
2030-2034	3,307,830	2,550,570	-	-
2035-2039	3,886,638	1,971,762	-	-
2040-2044	4,566,168	1,292,232	-	-
2045-2049	4,246,976	464,636	-	-
2050	1,126,393	27,530	-	-
	<b>\$ 24,843,279</b>	<b>\$ 12,901,756</b>	<b>\$ 260,834</b>	<b>\$ 10,711</b>

**Kremmling Memorial Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2019 and 2018**

**8. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs have decreased significantly from the prior year due to a decrease in uninsured patients. 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:

	<b>2019</b>	<b>2018</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 10,658,966	\$ 8,853,687
Medicaid	2,732,681	2,928,004
Other third-party payors	20,151,858	18,864,539
Patients	4,663,554	6,190,487
Supplemental payments	2,881,988	3,158,181
	<b>41,089,047</b>	<b>39,994,898</b>
Less:		
Charity care	499,280	536,754
Provision for bad debts	3,410,859	7,339,793
<b>Net patient service revenue</b>	<b>\$ 37,178,908</b>	<b>\$ 32,118,351</b>

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 Kremmling Clinic, Granby Clinic, North Park Clinic, and Winter Park Clinic as rural health clinics by Medicare, and are reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. The District is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Nonrural health clinic physician services are reimbursed on a fee schedule.
- *Medicaid* – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicaid outpatient services are paid based on prospectively determined rates. 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.

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**8. Net Patient Service Revenue (continued):**

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$83,000 and decreased by approximately \$30,000 in the years ended December 31, 2019 and 2018, respectively, due to differences between original estimates and final settlements or revised estimates.

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

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 2015 through 2018 are being reprocessed, resulting in estimated additional reimbursement of approximately \$161,000 for the four-year period. The rate reconciliation has been accounted for as a change in estimate, and as a result, net patient service revenue for the years ended December 31, 2019 and 2018, increased by approximately \$-0- and \$13,000, respectively, due to differences between original estimates and final settlements of Medicaid rural health clinic revenue from 2015 to 2018. For the year ended December 31, 2019, the District has estimated a payable of approximately \$124,000 for the rate reconciliation.

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 \$280,000 and \$319,000, respectively. The District received no gifts or grants to subsidize the cost of caring for charity care patients in 2019 or 2018.

**9. Property Taxes:**

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

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**9. Property Taxes (continued):**

For 2019, the District's regular tax levy was \$7.045 per \$1,000 on a total assessed valuation of \$132,589,930, for a total regular levy of \$934,096. For 2018, the District's regular tax levy was \$7.045 per \$1,000 on a total assessed valuation of \$135,270,980, for a total regular levy of \$953,005.

The District paid \$46,858 and \$46,858 in 2019 and 2018, respectively, to the Grand County Treasurer for assessment and collection of the tax levy.

**10. Deferred Compensation Plans:**

The District sponsors the MPMC 457 Plan (the 457 Plan), a defined contribution pension plan for its full-time employees over age 18. The 457 Plan is administered by the District. Benefit terms, including contribution requirements, for the 457 Plan are established and may be amended by the District. The District is not required to contribute to the 457 Plan. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. Employee contributions to the 457 Plan were approximately \$786,000 and \$800,000 for the years ended December 31, 2019 and 2018, respectively.

The District also sponsors the MPMC 401(a) Plan (the 401(a) Plan). This defined contribution plan covers all employees. Employees do not contribute to this plan. The District contributes to the 401(a) Plan on a discretionary basis. The District contributions to the 401(a) Plan during the years ended December 31, 2019 and 2018, were approximately \$330,000 and \$296,000, respectively. The 401(a) Plan is administered by the District. Benefit terms, including contribution requirements, for the 401(a) Plan are established and may be amended by the District.

Employees' voluntary contributions and employer contributions are 100 percent vested. The District had a liability due to the 401(a) Plan and 457 Plan in the amounts of approximately \$188,000 and \$102,000 at December 31, 2019 and 2018, respectively.

**11. Contingencies and Commitments:**

**Commitment** – In September 2016, the District entered into an information services agreement with Centura Health. The estimated future commitment for software upgrades and support ranges from \$461,000 to \$475,000 annually through 2021. The agreement may be terminated with a 365-day written notice.

**Medical malpractice claims** – The District has professional liability insurance coverage with COPIC Insurance Company. The policy provides protection on a "claims-made" basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year, or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has no deductible per claim.

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

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**11. Contingencies and Commitments (continued):**

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

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

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

**Risk management** – The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for any of the three preceding years.

**12. Concentration of Credit Risk:**

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

	<b>2019</b>	<b>2018</b>
Medicare	17 %	20 %
Medicaid	9	17
Other third-party payors	22	32
Patients	52	31
	<b>100 %</b>	<b>100 %</b>

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

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**13. Commitments Under Noncancelable Operating Leases:**

The District is committed under various noncancelable operating leases for property. Future minimum operating lease payments are as follows:

<b>Years Ending December 31,</b>		
2020	\$	75,132
2021		75,132
2022		21,486
2023		17,988
2024		18,348
2025-2028		31,400
	<b>\$</b>	<b>239,486</b>

**14. COVID-19 Pandemic:**

The COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. The District has incurred additional direct costs for response to COVID-19 and has lost revenue due to the temporary discontinuance or reduction of service lines.

State and federal governments are providing emergency funding to help hospitals overcome these negative effects. The District received payments from the CARES Act Provider Relief Fund in the amount of \$4,386,549 subsequent to year end.

Medicare sequestration has been suspended from May 1, 2020 through December 31, 2020, increasing Medicare reimbursement by 2 percent.

In May 2020, the District received a Small Business Administration Paycheck Protection Program loan through United Business Bank of \$2,534,874. This loan contains a forgiveness provision, in which the loan could be forgiven partially or entirely, based on the District meeting qualifications.

The District has unrestricted reserves representing 36 days of operating expenses.

State and federal governments are also considering additional emergency funding to help hospitals overcome these negative effects.

Management has also restarted service lines as the state of Colorado restrictions have been removed. The District could also utilize its unrestricted reserves to cover operating expenses until revenues recover. The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.

**Kremmling Memorial Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2019 and 2018**

**15. Subsequent Event:**

In July 2020, the District entered into a construction loan note payable with Western Alliance Business Trust, in the amount of \$18,239,000. The note bears interest at 3.18 percent. Interest only payments are due through August 2022, at which date the remaining principal and unpaid interest will be due. The loan will be used to finance the construction projects noted in Note 5 and was issued in anticipation of the receipt of two USDA Direct Loans and a USDA Guaranteed Loan upon completion of the construction.

**SUPPLEMENTARY INFORMATION**

**Kremmling Memorial Hospital District**  
**Schedule of Budget and Actual Revenues and Expenses**  
**Year Ended December 31, 2019**

	<b>2019</b>	<b>Preliminary and Final Approved Budget</b>	<b>Favorable (Unfavorable) Variance</b>
<i>Operating revenues</i>			
Net patient service revenue, net of provision for bad debts	\$ 37,178,908	\$ 38,306,000	\$ (1,127,092)
Grants	36,039	195,000	(158,961)
Other	252,190	250,000	2,190
<b>Total operating revenues</b>	<b>37,467,137</b>	<b>38,751,000</b>	<b>(1,283,863)</b>
<i>Operating expenses</i>			
Salaries and wages	16,573,645	17,126,000	552,355
Employee benefits	5,005,609	6,080,000	1,074,391
Professional fees and other purchased services	6,313,650	5,348,000	(965,650)
Supplies	3,044,234	3,222,000	177,766
Depreciation and amortization	1,608,861	1,663,000	54,139
Insurance	244,579	140,000	(104,579)
Utilities	468,307	568,000	99,693
Repairs and maintenance	136,159	158,000	21,841
Leases and rentals	315,125	352,000	36,875
Provider fees	617,491	727,000	109,509
Other	531,759	735,000	203,241
<b>Total operating expenses</b>	<b>34,859,419</b>	<b>36,119,000</b>	<b>1,259,581</b>
<i>Operating income (loss)</i>	<b>2,607,718</b>	<b>2,632,000</b>	<b>(24,282)</b>
<i>Nonoperating revenues (expenses)</i>			
Taxation for operations	1,010,750	1,002,000	8,750
Interest income	19,830	-	19,830
Gain on sale of capital assets	-	-	-
Interest expense	(853,216)	(830,000)	(23,216)
<b>Total nonoperating revenues (expenses), net</b>	<b>177,364</b>	<b>172,000</b>	<b>5,364</b>
<b>Change in net position</b>	<b>\$ 2,785,082</b>	<b>\$ 2,804,000</b>	<b>\$ (18,918)</b>

*See accompanying independent auditors' report.*