



Financial Statements
December 31, 2019 and 2018
Telluride Hospital District

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Independent Auditor's Report

The Board of Directors
Telluride Hospital District
Telluride, Colorado

Report on the Financial Statements

We have audited the accompanying statements of net position of Telluride Hospital District (District), as of December 31, 2019, and 2018 and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of 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 Telluride Hospital District as of December 31, 2019, and 2018 and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2020, on our consideration of the District's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Telluride Hospital District's internal control over financial reporting and compliance.



Fargo, North Dakota

July 30, 2020

Introduction

Management's discussion and analysis of Telluride Hospital District's (District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2019, 2018, and 2017. It should be read in conjunction with the District's financial statements, which begin on page 7.

Financial Highlights

- The District's net position increased by \$839,300 or 16.0% in 2019, decreased by \$395,877 or 7.0% in 2018, and increased by \$329,935 or 6.2% in 2017.
- Total operating revenues increased by \$478,036 or 8.5% in 2019, decreased by \$188,216 or 3.2% in 2018, and increased by \$385,054 or 7.1% in 2017.
- Operating expenses increased by \$854,821 or 10.3% in 2019, \$368,806 or 4.7% in 2018, and \$168,980 or 2.2% in 2017.
- The District reported operating losses of \$2,989,249 in 2019, \$2,612,464 in 2018, and \$2,055,442 in 2017.
- Nonoperating revenues increased by \$1,599,962 or 72.3% in 2019, decreased by \$87,340 or 3.8% in 2018, and increased by \$396,177 or 20.8% in 2017.

Using This Annual Report

The District's financial statements consist of three statements; a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position reflect information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting requires that all of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. The District's total net position – the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources – are one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided and local economic factors should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The District's Net Position

The District's net position is the difference between its assets, liabilities, and deferred inflows of resources. The District's net position increased by \$839,300 or 16.0% in 2019 and decreased by \$395,877 or 7.0% in 2018 as shown below:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Current assets	\$ 6,817,655	\$ 5,880,220	\$ 5,275,445
Capital assets, net	2,828,240	2,585,854	2,606,930
Other noncurrent assets	<u>77,099</u>	<u>82,278</u>	<u>78,390</u>
Total assets	<u><u>\$ 9,722,994</u></u>	<u><u>\$ 8,548,352</u></u>	<u><u>\$ 7,960,765</u></u>
Liabilities			
Current liabilities	<u>\$ 750,848</u>	<u>\$ 527,098</u>	<u>\$ 542,398</u>
Deferred Inflows of Resources	<u>2,883,483</u>	<u>2,771,891</u>	<u>1,773,127</u>
Net Position			
Net investment in capital assets	2,828,240	2,585,854	2,606,930
Restricted by donors - expendable	62,702	166,182	54,477
Unrestricted	<u>3,197,721</u>	<u>2,497,327</u>	<u>2,983,833</u>
Total net position	<u>6,088,663</u>	<u>5,249,363</u>	<u>5,645,240</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 9,722,994</u></u>	<u><u>\$ 8,548,352</u></u>	<u><u>\$ 7,960,765</u></u>

Operating Results and Changes in the District's Net Position

The following table highlights the District's operations and changes in net position. The District had operating losses for 2019, 2018, and 2017. Net position increased in 2019 and 2017 and decreased in 2018.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues			
Net patient service revenue	\$ 5,503,439	\$ 5,052,622	\$ 5,095,388
Other operating revenue	626,531	599,312	744,762
Total operating revenue	<u>6,129,970</u>	<u>5,651,934</u>	<u>5,840,150</u>
Operating Expenses			
Salaries, wages, and employee benefits	4,989,547	4,603,188	4,471,468
Supplies, professional fees, and other	3,898,665	3,378,876	3,170,964
Depreciation and amortization	231,007	282,334	253,160
Total operating expenses	<u>9,119,219</u>	<u>8,264,398</u>	<u>7,895,592</u>
Operating Loss	<u>(2,989,249)</u>	<u>(2,612,464)</u>	<u>(2,055,442)</u>
Nonoperating Revenues (Expenses)			
Property taxes	2,891,245	1,788,477	1,822,002
Noncapital contributions and donations	478,892	342,217	390,540
Interest income	90,732	44,972	33,480
Other nonoperating revenues/expenses	350,680	35,921	52,905
Nonoperating revenues, net	<u>3,811,549</u>	<u>2,211,587</u>	<u>2,298,927</u>
Revenues in Excess of (Less Than) Expenses Before Capital Contributions	822,300	(400,877)	243,485
Capital Contributions and Grants	<u>17,000</u>	<u>5,000</u>	<u>86,450</u>
Increase (Decrease) in Net Position	839,300	(395,877)	329,935
Net Position, Beginning of Year	<u>5,249,363</u>	<u>5,645,240</u>	<u>5,315,305</u>
Net Position, End of Year	<u>\$ 6,088,663</u>	<u>\$ 5,249,363</u>	<u>\$ 5,645,240</u>

Operating Income

The first component of the overall change in the District's net position is its operating income, generally, the difference between operating revenues and the expenses incurred to perform those services. The District reported operating losses of \$3.0 million in 2019, \$2.6 million in 2018, and \$2.1 million in 2017.

Net patient service revenues remained at approximately \$5.1 million in 2018 with a decrease of 0.8% compared to 2017, and increased from approximately \$5.1 million to approximately \$5.5 million in 2019, an increase of 8.9% compared to 2018, which was primarily driven by an increase in visits in 2019.

Operating expenses increased from approximately \$7.9 million in 2017 to approximately \$8.3 million in 2018, an increase of 4.7%, and increased to approximately \$9.1 million from 2018 to 2019, an increase of 10.3%. The increases in 2019 and 2018 are largely attributable to salaries and benefits, professional contract services, and marketing and grant expense in the Foundation.

Nonoperating Revenues and Expenses

Non-operating revenues and expenses consist primarily of property taxes levied by the District and grants and contributions received from donors and government agencies.

The District's Cash Flows

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

Capital Assets

At the end of 2019, 2018, and 2017 the District had \$2,828,240, \$2,585,854, and \$2,606,930 invested in capital assets, net of accumulated depreciation. During 2019, the District invested approximately \$488,000 in new capital assets. These capital expenditures were primarily for the new facility project. During 2018, the District invested approximately \$351,000 in new capital assets. The 2018 capital expenditures were primarily for new building improvements. During 2017, the District invested approximately \$366,000 in new capital assets. The 2017 capital expenditures related primarily for network upgrades and the implementation of a new IT system.

Other Economic Factors

The District is located in a rural area which is predominately a resort community. Additional economic factors affecting the District include changes in county population, increasing numbers of uninsured or underinsured patients and increasing costs of recruiting, hiring, and retaining health care professionals.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the funds it receives. Questions about this report and requests for additional financial information should be directed to the Telluride Hospital District's Financial Director, 500 West Pacific Avenue, Telluride, CO 81435.

Telluride Hospital District
Statements of Net Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,169,710	\$ 1,002,466
Short-term investments	1,840,778	1,177,267
Receivables		
Patient, net of estimated uncollectibles of \$67,000 and \$95,000 in 2019 and 2018	772,931	786,078
Property taxes receivable	2,883,483	2,771,891
Other	9,969	6,956
Supplies and prepaid expenses	140,784	135,562
Total current assets	6,817,655	5,880,220
Capital Assets		
Capital assets not being depreciated	783,868	465,964
Capital assets being depreciated, net	2,044,372	2,119,890
Total capital assets	2,828,240	2,585,854
Other Assets	77,099	82,278
Total assets	\$ 9,722,994	\$ 8,548,352
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Accounts payable	\$ 216,620	\$ 108,688
Accrued compensation and employee benefits	534,228	418,410
Total current liabilities	750,848	527,098
Deferred Inflows of Resources		
Property taxes	2,883,483	2,771,891
Net Position		
Net investment in capital assets	2,828,240	2,585,854
Restricted by donors - expendable	62,702	166,182
Unrestricted	3,197,721	2,497,327
Total net position	6,088,663	5,249,363
Total liabilities, deferred inflows of resources, and net position	\$ 9,722,994	\$ 8,548,352

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

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$401,447 and \$260,050 in 2019 and 2018	\$ 5,503,439	\$ 5,052,622
Other revenue	626,531	599,312
Total operating revenues	6,129,970	5,651,934
Operating Expenses		
Salaries and wages	4,021,642	3,734,278
Employee benefits	967,905	868,910
Professional and contract services	1,981,458	1,866,424
Supplies	533,203	502,146
Depreciation	231,007	282,334
Information technology	692,921	566,998
Occupancy	200,929	215,509
Other	490,154	227,799
Total operating expenses	9,119,219	8,264,398
Operating Loss	(2,989,249)	(2,612,464)
Nonoperating Revenues (Expenses)		
Property taxes	2,891,245	1,788,477
Noncapital contributions and grants	478,892	342,217
Other	34,894	33,328
Interest income	90,732	44,972
Community support activities	315,786	2,593
Total nonoperating revenues, net	3,811,549	2,211,587
Revenues in Excess of (Less Than) Expenses Before Capital Contributions and Grants	822,300	(400,877)
Capital Contributions and Grants	17,000	5,000
Change in Net Position	839,300	(395,877)
Net Position, Beginning of Year	5,249,363	5,645,240
Net Position, End of Year	\$ 6,088,663	\$ 5,249,363

Telluride Hospital District
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Cash received from patient services	\$ 5,516,586	\$ 4,935,634
Payments to and on behalf of employees	(4,873,729)	(4,602,369)
Payments to suppliers and contractors	(3,795,955)	(3,327,991)
Other receipts and payments, net	<u>628,697</u>	<u>606,411</u>
Net Change in Cash From Operating Activities	<u>(2,524,401)</u>	<u>(2,388,315)</u>
Noncapital Financing Activities		
Property tax revenue	2,891,245	1,824,349
Noncapital contributions and grants	478,892	367,585
Non-operating revenues and expenses, net	<u>350,680</u>	<u>35,921</u>
Net Change in Cash From Noncapital Financing Activities	<u>3,720,817</u>	<u>2,227,855</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets, depreciable	(169,869)	(256,253)
Purchase of capital assets, non-depreciable	(303,524)	(5,005)
Capital contributions and grants	<u>17,000</u>	<u>5,000</u>
Net Change in Cash From Capital and Capital Related Financing Activities	<u>(456,393)</u>	<u>(256,258)</u>
Investing Activities		
Interest income	90,732	44,972
Purchase of short-term investments	(663,511)	-
Sale of short-term investments	<u>-</u>	<u>525,942</u>
Net Change in Cash From Investing Activities	<u>(572,779)</u>	<u>570,914</u>
Net Change in Cash and Cash Equivalents	167,244	154,196
Cash and Cash Equivalents, Beginning of Year	<u>1,002,466</u>	<u>848,270</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,169,710</u>	<u>\$ 1,002,466</u>

Telluride Hospital District
 Statements of Cash Flows
 Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (2,989,249)	\$ (2,612,464)
Adjustments to reconcile operating loss to net change in cash used for operating activities		
Depreciation on capital assets	231,007	282,334
Provision for bad debts	401,447	260,050
Changes in assets and liabilities		
Patient receivables	(388,300)	(370,994)
Other receivables	(3,013)	11,727
Supplies and prepaids	(5,222)	60,220
Other assets	5,179	(3,888)
Accounts payable	107,932	(16,119)
Accrued compensation and employee benefits	115,818	819
Net Cash used for Operating Activities	\$ (2,524,401)	\$ (2,388,315)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Accounts payable for construction (and equipment)	\$ 14,380	\$ 90,603

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Telluride Hospital District (the District) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

Reporting Entity

The District was established in 1983 to operate and maintain a community health clinic and emergency center for the diagnosis and treatment of individuals requiring outpatient services and emergency care in the community and surrounding area of Telluride, Colorado. In addition to its primary purpose, the District supports community health care through ongoing review and assessment of regional health care needs and cooperation with local, regional, state, and federal health care initiatives.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

Blended Component Unit

Telluride Medical Center Foundation (Foundation) was formed exclusively for charitable purposes for the benefit of the District. The Foundation is organized as a Colorado nonprofit corporation and is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. The Foundation has been determined to be a component unit based on the Foundation's bylaws and is presented as a blended component unit in the District's financial statements. The financial statements include the financial activity of the District and Foundation. All significant intercompany transactions and balances have been eliminated.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the District's assets, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted net position

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations, which require them to be maintained permanently by the District.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less. For purposes of the statement of cash flows, the District considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Short-Term Investments

Short-term investments include deposits with an original maturity of three to twelve months.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Property Tax Receivable and Revenues

Property tax receivable is recognized on the lien date, which is January 1 of the tax year in Colorado. The property tax receivable represent taxes certified by the Board of Directors to be collected in the next fiscal year. However, by statute, the tax asking becomes effective on the first day of the following year. Although the property tax receivable has been recorded, the related revenue is considered a deferred inflow of resources – unavailable revenue and will not be recognized as revenue until the year in which it is levied.

Lien date	January 1
Levy date	January 1, succeeding year
Due dates	February 28 and June 15, succeeding year

In 2019, the District received \$2,891,245 which was used for the District's general operations. In 2018, the District received \$1,788,268, of which \$1,003,940 was used for the operation and maintenance of the emergency care facility and \$784,328 was used for the District's general operations.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

Buildings and improvements	5-40 years
Equipment	5-20 years

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

Compensated Absences

The District's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. The liability for compensated absences is included with accrued compensation and employee benefits in the accompanying financial statements.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources reported in the financial statements include property taxes. Property taxes will be recognized as revenue in the year they are levied.

Operating Revenues and Expenses

The District's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the District result from exchange transactions associated with providing health care services - the District's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Charity Care

The District provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the District does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was approximately \$92,000 and \$89,000 for the years ended December 31, 2019 and 2018, calculated by multiplying the ratio of cost to gross charges for the District by the gross uncompensated charges associated with providing charity care to its patients.

Grants and Contributions

The District receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions 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 that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of (less than) expenses.

Budgets

The District adopts an annual budget in accordance with Colorado Statutes. The budgeted revenue and expenditures are used by management as a control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.

Note 2 - Net Patient Service Revenue

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

Medicare/Medicaid – Clinical and emergency services rendered to program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors.

Commercial – 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 and fixed fee schedules.

Concentration of net revenues by major payor accounted for the following percentages of the District's patient service revenues for the years ended December 31, 2019 and 2018:

	2019	2018
Other third-party payors and patients	66%	67%
Patient self-pay	8%	7%
Medicare	17%	15%
Medicaid	9%	11%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of December 31, 2019 and 2018 are as follows:

	2019	2018
Carrying Amount		
Cash	\$ 1,169,710	\$ 1,002,466
Short term investments	1,840,778	1,177,267
Total carrying amount	\$ 3,010,488	\$ 2,179,733

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the District's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the District. Statutes also require that the market value of the collateral be at least 102% of the excess deposits. The District's deposit policy does not further restrict bank deposits or limit investment deposits.

The District's deposits in banks at December 31, 2019 and 2018 were entirely covered by federal depository insurance or by collateral held by the District's custodial bank in the District's name.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA.

PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2019 and 2018, the District's deposits were entirely covered by FDIC and PDPA.

Investments

The District's investments are reported at fair value. The District is authorized by statute to invest funds in obligations of the United States and certain U.S. government agency securities; commercial paper; local government investment pools; certain money market funds; written repurchase agreements collateralized by certain authorized securities. The District's investments as of December 31, 2019 and 2018 of \$1,840,778 and \$1,177,267 are invested in Colotrust, a local government investment pool established for local governments in Colorado. These pools operate similar to money market funds and each share is equal in value to \$1. This investment is reported at Net Asset Value per share, as reported by the custodian. State statute limits Colotrust investments to U.S. treasury and U.S. Agency securities and is rated AAAm by Standard and Poor's.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the years ended December 31, 2019 and 2018 are as follows:

	Balance December 31, 2018	Additions	Retirements	Balance December 31, 2019
Capital assets not being depreciated				
New facility project	\$ 465,964	\$ 317,904	\$ -	\$ 783,868
Capital assets being depreciated				
Medical equipment	\$ 1,487,161	\$ 36,927	\$ -	\$ 1,524,088
Building improvements	2,895,134	81,042	14,380	2,961,796
Administrative equipment	782,579	51,900	-	834,479
Furniture and fixtures	79,060	-	-	79,060
Total capital assets being depreciated	5,243,934	\$ 169,869	\$ 14,380	5,399,423
Less accumulated depreciation for				
Medical equipment	1,284,031	\$ 68,534	\$ -	1,352,565
Building improvements	1,176,183	108,543	-	1,284,726
Administrative equipment	594,897	52,585	-	647,482
Furniture and fixtures	68,933	1,345	-	70,278
Total accumulated depreciation	3,124,044	\$ 231,007	\$ -	3,355,051
Net capital assets being depreciated	\$ 2,119,890			\$ 2,044,372
Capital assets, net	\$ 2,585,854			\$ 2,828,240

The new facility project represents costs related to the design and construction of a new facility. The new facility is in the planning and site selection phase. There are no commitments at December 31, 2019 related to this project.

Telluride Hospital District
Notes to the Financial Statements
December 31, 2019 and 2018

	Balance December 31, 2017	Additions	Retirements	Balance December 31, 2018
Capital assets not being depreciated				
New facility project	\$ 460,959	\$ 5,005	\$ -	\$ 465,964
Capital assets being depreciated				
Medical equipment	\$ 1,487,161	\$ -	\$ -	\$ 1,487,161
Building improvements	2,636,941	318,280	60,087	2,895,134
Administrative equipment	803,859	15,130	36,410	782,579
Furniture and fixtures	65,614	13,446	-	79,060
Total capital assets being depreciated	4,993,575	\$ 346,856	\$ 96,497	5,243,934
Less accumulated depreciation for				
Medical equipment	1,222,940	\$ 61,091	\$ -	1,284,031
Building improvements	1,084,363	91,820	-	1,176,183
Administrative equipment	474,687	126,105	5,895	594,897
Furniture and fixtures	65,614	3,319	-	68,933
Total accumulated depreciation	2,847,604	\$ 282,335	\$ 5,895	3,124,044
Net capital assets being depreciated	\$ 2,145,971			\$ 2,119,890
Capital assets, net	\$ 2,606,930			\$ 2,585,854

Note 5 - Pension Plans

Plan Description and Funding Policy

The District has a deferred compensation plan (the Plan) through annuity contracts with Colorado County Officials and Employees Retirement Association (CCOERA) in accordance with Section 457(b) of the Internal Revenue Code (IRC). The Plan allows participating employees to defer a portion of their compensation for retirement purposes. The deferred compensation is invested for the participants by the District under the agreements in the Plan. Under provisions of the IRC, all Plan assets are considered to be the property of the eligible participants and are, therefore, not considered to be assets of the District.

The District has offered a 401(a) Plan through CCOERA. Under terms of the Plan, all employees who have completed one year of service are eligible to participate. Benefit provisions are contained in the plan document and were established and can be amended by action of the District’s governing body. Participants may defer a portion of their compensation up to specified limits according to the IRC. The District will match 3% of the participants’ contributions monthly. Non-vested benefits will be forfeited. The amounts that were forfeited during the years ended December 31, 2019, 2018, and 2017 were not significant. For the years ended December 31, 2019, 2018, and 2017, the District contributed \$106,528, \$91,909, and \$62,613 to the Plan.

Note 6 - Concentrations of Credit Risk

The District grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2019 and 2018 was as follows:

	2019	2018
Other third-party payors and patients	46%	64%
Patient self-pay	34%	23%
Medicare	14%	9%
Medicaid	6%	4%
	100%	100%

Note 7 - Contingencies

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; 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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

The District has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigation, Claims, and Disputes

The District is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the District.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 8 - Presentation of Component Unit

The following summarizes combining information for the District and Foundation which has been presented as a blended component unit, as of and for the year ended December 31, 2019.

Statement of net position as of December 31, 2019:

	<u>District</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Total current assets	\$ 5,987,629	\$ 838,286	\$ (8,260)	\$ 6,817,655
Total capital assets	2,828,240	-	-	2,828,240
Total other assets	<u>51,419</u>	<u>25,680</u>	<u>-</u>	<u>77,099</u>
Total assets	<u>\$ 8,867,288</u>	<u>\$ 863,966</u>	<u>\$ (8,260)</u>	<u>\$ 9,722,994</u>
Liabilities, Deferred Inflows of Resources, and Net Position				
Liabilities				
Liabilities	<u>\$ 750,848</u>	<u>\$ 8,260</u>	<u>\$ (8,260)</u>	<u>\$ 750,848</u>
Deferred Inflows of Resources	<u>2,883,483</u>	<u>-</u>	<u>-</u>	<u>2,883,483</u>
Net Position				
Net investment in capital assets	2,828,240	-	-	2,828,240
Restricted	-	62,702	-	62,702
Unrestricted	<u>2,404,717</u>	<u>793,004</u>	<u>-</u>	<u>3,197,721</u>
Total net position	<u>5,232,957</u>	<u>855,706</u>	<u>-</u>	<u>6,088,663</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 8,867,288</u>	<u>\$ 863,966</u>	<u>\$ (8,260)</u>	<u>\$ 9,722,994</u>

Telluride Hospital District
Notes to the Financial Statements
December 31, 2019 and 2018

Operating results and changes in net position for the year ended December 31, 2019:

	<u>District</u>	<u>Foundation</u>	<u>Combined</u>
Operating Revenues			
Net patient service revenue	\$ 5,503,439	\$ -	\$ 5,503,439
Other revenue	626,531	-	626,531
Total operating revenues	<u>6,129,970</u>	<u>-</u>	<u>6,129,970</u>
Operating Expenses			
Other operating expenses	8,406,111	482,101	8,888,212
Depreciation	231,007	-	231,007
Total operating expenses	<u>8,637,118</u>	<u>482,101</u>	<u>9,119,219</u>
Operating Loss	(2,507,148)	(482,101)	(2,989,249)
Nonoperating revenues, net	<u>3,213,896</u>	<u>597,653</u>	<u>3,811,549</u>
Revenues in Excess of (Less Than) Expenses Before Capital Contributions and Grants	706,748	115,552	822,300
Capital Contributions and Grants	<u>-</u>	<u>17,000</u>	<u>17,000</u>
Change in Net Position	706,748	132,552	839,300
Net Position, Beginning of Year	<u>4,526,209</u>	<u>723,154</u>	<u>5,249,363</u>
Net Position, End of Year	<u>\$ 5,232,957</u>	<u>\$ 855,706</u>	<u>\$ 6,088,663</u>

Cash flows for the year ended December 31, 2019:

	<u>District</u>	<u>Foundation</u>	<u>Combined</u>
Net Cash used for Operating Activities	\$ (2,032,949)	\$ (491,452)	\$ (2,524,401)
Net Cash from Noncapital Financing Activities	3,257,496	463,321	3,720,817
Net Cash from (used for) Capital Related Financing Activities	(169,869)	17,000	(456,393)
Net Cash from Investing Activities	<u>(595,651)</u>	<u>22,872</u>	<u>(572,779)</u>
Net Change in Cash and Cash Equivalents	459,027	11,741	167,244
Cash and Cash Equivalents, Beginning of Year	<u>401,705</u>	<u>600,761</u>	<u>1,002,466</u>
Cash and Cash Equivalents, End of Year	<u>\$ 860,732</u>	<u>\$ 612,502</u>	<u>\$ 1,169,710</u>

The following summarizes combining information for the District and Foundation, which has been presented as a blended component unit, as of and for the year ended December 31, 2018.

Statement of net position as of December 31, 2018:

	District	Foundation	Eliminations	Combined
Assets				
Total current assets	\$ 5,173,395	\$ 723,154	\$ (16,329)	\$ 5,880,220
Total capital assets	2,585,854	-	-	2,585,854
Total other assets	82,278	-	-	82,278
Total assets	\$ 7,841,527	\$ 723,154	\$ (16,329)	\$ 8,548,352
Liabilities, Deferred Inflows of Resources, and Net Position				
Liabilities	\$ 543,427	\$ -	\$ (16,329)	\$ 527,098
Deferred Inflows of Resources	2,771,891	-	-	2,771,891
Net Position				
Net investment in capital assets	2,585,854	-	-	2,585,854
Restricted	-	166,182	-	166,182
Unrestricted	1,940,355	556,972	-	2,497,327
Total net position	4,526,209	723,154	-	5,249,363
Total liabilities, deferred inflows of resources, and net position	\$ 7,841,527	\$ 723,154	\$ (16,329)	\$ 8,548,352

Telluride Hospital District
Notes to the Financial Statements
December 31, 2019 and 2018

Operating results and changes in net position for the year ended December 31, 2018:

	<u>District</u>	<u>Foundation</u>	<u>Combined</u>
Operating Revenues			
Net patient service revenue	\$ 5,052,622	\$ -	\$ 5,052,622
Other revenue	599,312	-	599,312
Total operating revenues	<u>5,651,934</u>	<u>-</u>	<u>5,651,934</u>
Operating Expenses			
Other operating expenses	7,722,282	259,782	7,982,064
Depreciation	282,334	-	282,334
Total operating expenses	<u>8,004,616</u>	<u>259,782</u>	<u>8,264,398</u>
Operating Loss	(2,352,682)	(259,782)	(2,612,464)
Nonoperating revenues, net	<u>1,779,054</u>	<u>432,533</u>	<u>2,211,587</u>
Revenues in Excess of (Less Than) Expenses Before Capital Contributions and Grants	(573,628)	172,751	(400,877)
Capital Contributions and Grants	<u>-</u>	<u>5,000</u>	<u>5,000</u>
Change in Net Position	(573,628)	177,751	(395,877)
Net Position, Beginning of Year	<u>5,099,837</u>	<u>545,403</u>	<u>5,645,240</u>
Net Position, End of Year	<u>\$ 4,526,209</u>	<u>\$ 723,154</u>	<u>\$ 5,249,363</u>

Cash flows for the year ended December 31, 2018:

	<u>District</u>	<u>Foundation</u>	<u>Combined</u>
Net Cash used for Operating Activities	\$ (2,109,758)	\$ (278,557)	\$ (2,388,315)
Net Cash from Noncapital Financing Activities	1,889,963	337,892	2,227,855
Net Cash from (used for) Capital Related Financing Activities	(261,258)	5,000	(256,258)
Net Cash from (used for) Investing Activities	<u>569,309</u>	<u>1,605</u>	<u>570,914</u>
Net Change in Cash and Cash Equivalents	88,256	65,940	154,196
Cash and Cash Equivalents, Beginning of Year	<u>313,449</u>	<u>534,821</u>	<u>848,270</u>
Cash and Cash Equivalents, End of Year	<u>\$ 401,705</u>	<u>\$ 600,761</u>	<u>\$ 1,002,466</u>

Note 9 - Subsequent Events

Subsequent to year-end, the District has been negatively impacted by the effects of the world-wide coronavirus pandemic. The District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the District's financial position is not known.

In May 2020, the District obtained \$725,500 of loan proceeds through participation in the Paycheck Protection Program. The loan proceeds are expected to be used to cover costs related to payroll and employee benefits and utilities. Funds borrowed under this program carry an interest rate of 1%, are due within five years of inception and may be forgiven if certain conditions are met.

The District has evaluated subsequent events through July 30, 2020, the date which the financial statements were available to be issued.



Supplementary Information
December 31, 2019 and 2018
Telluride Hospital District



Independent Auditor's Report on Supplementary Information

The Board of Directors
Telluride Hospital District
Telluride, Colorado

We have audited the financial statements of Telluride Hospital District as of and for the year ended December 31, 2019, and 2018 and our report thereon July 30, 2020, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules shown on pages 27 and 28 are presented for purposes of additional analysis, and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Budgeted Revenues and Expenses shown on page 27, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The Budgeted Revenues and Expenses has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express and opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota
July 30, 2020

Telluride Hospital District
Schedule of Budgeted and Actual Revenues and Expenses
December 31, 2019 and 2018

	Actual	Budgeted	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 5,503,439	\$ 5,446,573	\$ 56,866
Other revenue	626,531	582,199	44,332
	<u>6,129,970</u>	<u>6,028,772</u>	<u>101,198</u>
Operating Expenses			
Salaries and wages	4,021,642	3,764,099	(257,543)
Employee benefits	967,905	879,954	(87,951)
Professional and contract services	1,981,458	2,261,126	279,668
Supplies	533,203	480,803	(52,400)
Depreciation	231,007	305,323	74,316
Information technology	692,921	151,993	(540,928)
Occupancy	200,929	189,655	(11,274)
Other	490,154	182,326	(307,828)
	<u>9,119,219</u>	<u>8,215,279</u>	<u>(903,940)</u>
Operating Loss	(2,989,249)	(2,186,507)	(802,742)
Nonoperating Revenues, net	3,811,549	3,102,832	708,717
Capital Contributions and Grants	17,000	59,544	(42,544)
Change in Net Position	<u>\$ 839,300</u>	<u>\$ 975,869</u>	<u>\$ (136,569)</u>

Notes to Schedule

1. Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.
2. Appropriations are adopted by resolutions in total.
3. Management believes that the District is compliant with the rules of Colorado's Taxpayer's Bill of Rights (TABOR).

Telluride Hospital District
Statements of Revenues and Expenses– Departmental
Year Ended December 31, 2019

	Emergency Care	Primary Care	General and Administrative	Total
Operating Revenues				
Net patient service revenue, net of bad debts of \$401,447 in 2019 and \$260,050 in 2018	\$ 2,650,364	\$ 2,853,075	\$ -	\$ 5,503,439
Other revenue	3,005	622,026	1,500	626,531
Total operating revenues	<u>2,653,369</u>	<u>3,475,101</u>	<u>1,500</u>	<u>6,129,970</u>
Operating Expenses				
Salaries and wages	1,002,701	1,919,565	968,915	3,891,181
Employee benefits	236,743	487,035	244,127	967,905
Professional and contract services	1,466,656	84,016	430,616	1,981,288
Supplies	156,240	360,253	16,355	532,848
Depreciation and amortization	231,007	-	-	231,007
Information technology	291,181	197,203	204,537	692,921
Occupancy	2,094	1,011	195,926	199,031
Other	4,619	7,847	128,471	140,937
Total operating expenses	<u>3,391,241</u>	<u>3,056,930</u>	<u>2,188,947</u>	<u>8,637,118</u>
Operating Income (Loss)	<u>(737,872)</u>	<u>418,171</u>	<u>(2,187,447)</u>	<u>(2,507,148)</u>
Nonoperating Revenues (Expenses)				
Property tax revenues	-	-	2,891,245	2,891,245
Noncapital contributions and grants	2,813	2,500	28,009	33,322
Other	300	18,381	16,213	34,894
Interest income	406	121	67,333	67,860
Distribution to TMCF	-	-	(111,460)	(111,460)
Community support activities	-	2,500	295,535	298,035
Total nonoperating revenues (expenses), net	<u>3,519</u>	<u>23,502</u>	<u>3,186,875</u>	<u>3,213,896</u>
Revenues in Excess of (Less Than) Expenses and Change in Net Position	<u>\$ (734,353)</u>	<u>\$ 441,673</u>	<u>\$ 999,428</u>	<u>\$ 706,748</u>



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Telluride Hospital District
Telluride, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Telluride Hospital District (District) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated July 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, 2019-A and 2019-B, which are considered to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Fargo, North Dakota
July 30, 2020

2019-A Preparation of Financial Statements
Significant Deficiency in Internal Control over Financial Reporting

Criteria – A good system of internal accounting control should provide for the preparation of the financial statements and footnotes in accordance with generally accepted accounting principles that are materially correct.

Condition – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, which include the accompanying required footnote disclosures. As auditors, we were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

Cause – This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints.

Effect – Inadequate controls over financial reporting could result in the District not being able to draft the financial statements and accompanying footnotes that are materially correct without the assistance of the auditors.

Recommendation – This circumstance is not unusual in an organization of your size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Due to cost considerations, the District will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

2019-B Limited Size of Office
Significant Deficiency in Internal Control over Financial Reporting

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition – The limited number of staff of the District does not facilitate the segregation of duties necessary to achieve a low level of control risk.

Cause – The District’s size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

Effect – Inadequate segregation of duties could adversely affect the District’s ability to detect and correct unintentional or intentional misstatements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – We recognize your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control. However, the District should continually review its internal control procedures, other compensating controls, and monitoring procedures to obtain the maximum internal control possible under the circumstances. In addition, active involvement of the Board of Trustees and the Board’s knowledge of the operations is an effective control.

Response – The District agrees with the finding and will continue to monitor the District’s operations and procedures very closely. In addition, the District will review its internal control over its financial reporting process and implement improvements in the segregation of duties where applicable.