



Financial Statements
December 31, 2019 and 2018
Yuma District Hospital

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Independent Auditor's Report

The Board of Directors
Yuma District Hospital
Yuma, Colorado

Report on the Financial Statements

We have audited the accompanying statements of net position of Yuma District Hospital (Hospital), 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 Hospital'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 general 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 Yuma District Hospital as of December 31, 2019 and 2018, and the changes in net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 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 June 25, 2020, on our consideration of Yuma District Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 that testing and not to provide an opinion on the effectiveness of Yuma District Hospital's 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 Yuma District Hospital's internal control over financial reporting and compliance.



Fargo, North Dakota

June 25, 2020

Introduction

Our discussion and analysis for Yuma District Hospital (Hospital) financial performance provides an overview of Yuma District Hospital's financial activities for the fiscal years ended December 31, 2019, 2018, and 2017. Please read it in conjunction with the Yuma District Hospital's financial statements, which begin on page 8.

Financial Highlights

- The Hospital's net position decreased in the fiscal year ended December 31, 2019 from \$4,629,086 to \$4,394,919. This is a decrease of \$234,167 or 5%. In the prior fiscal year ending December 31, 2018, net position increased from \$4,043,687 to \$4,629,086, an increase of \$585,399 or 14%.
- Operating revenue increased by \$243,954 during the year ended December 31, 2019. Net patient service revenue increased \$123,566 and other operating revenue increased \$120,388. At the same time, operating expenses increased by \$1,213,097. The most significant changes in operating expenses are an increase in salaries and wages of \$601,678 and an increase in purchased services of \$717,258. Operating revenue increased by \$1,488,506 and operating expenses increased by \$401,265 during the fiscal year ending December 31, 2018. Net patient service revenue increased \$1,403,089 and other operating revenue increased \$85,417. The most significant changes in operating expenses were a decrease in salaries and wages of \$168,112, an increase in employee benefits of \$183,606, and an increase in purchased services of \$635,722.
- There was operating income for the fiscal year ending December 31, 2019 of \$150,911, compared to operating income of \$1,120,054 in the prior year. This is a decrease of \$969,143. Operating income for the prior fiscal year was \$1,120,054, compared to \$32,813 for the year ended December 31, 2017. This was an increase of \$1,087,241.
- Total cash and cash equivalents and internally designated investments increased in 2019 from \$10,546,233 to \$12,079,452. This is an increase of \$1,533,219 or 15%. Total cash and cash equivalents and internally designated investments increased in 2018 from \$9,432,274 to \$10,546,233. This is an increase of \$1,113,959 or 12%.

Using this Annual Report

The Hospital'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 Hospital including resources held by the Hospital but restricted for specific purposes by lenders, contributors, grantors, or enabling legislation.

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

One of the most important questions asked about the Hospital's finances is, "Is the Hospital, 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 report information about the Hospital'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. 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 Hospital's net position and changes in them. You can think of the Hospital's net position – the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

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 operating, 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?"

Cash and cash equivalents increased from \$5,393,418 to \$5,544,752. This increase of \$151,334 is primarily due to the improved operating performance resulting from increased net patient service revenue and increase in investment income. Cash and cash equivalents increased in 2018 from \$4,453,919 to \$5,393,418. This increase of \$939,499 is primarily due to an increase in net patient service revenue. Cash and cash equivalents decreased in 2017 from \$4,730,662 to \$4,453,919. This decrease of \$276,743 is primarily due to a decrease in net patient service revenue.

The Hospital's Net Position

The Hospital's net position is the difference between its assets, liabilities, and deferred inflows of resources reported in the Statements of Net Position on page 8. The Hospital's net position decreased in the current fiscal year ending December 31, 2019 from \$4,629,086 to \$4,394,919. This is a decrease of \$234,167 or 5%. In the prior fiscal year ending December 31, 2018, net position increased from \$4,043,687 to \$4,629,086. This is an increase of \$585,399 or 15%. For the year ending December 31, 2017, net position decreased from \$4,675,997 to \$4,043,687, a decrease of \$632,310 or 14%.

Table 1: Assets, Liabilities, Deferred Inflows of Resources, and Net Position

	2019	2018	2017
Assets			
Current assets	\$ 6,702,819	\$ 5,203,144	\$ 4,917,914
Capital assets, net	10,845,364	11,798,793	12,425,602
Other noncurrent assets	10,639,540	11,830,181	11,740,257
Total assets	<u>\$ 28,187,723</u>	<u>\$ 28,832,118</u>	<u>\$ 29,083,773</u>
Liabilities			
Current liabilities	\$ 3,070,687	\$ 2,758,970	\$ 3,217,273
Long-term debt outstanding	19,980,015	20,705,816	21,089,840
Deferred inflows	742,102	738,246	732,973
Total liabilities and deferred inflows	<u>23,792,804</u>	<u>24,203,032</u>	<u>25,040,086</u>
Net Position			
Net investment in capital assets	(8,448,410)	(6,877,549)	(6,553,403)
Restricted - expendable for debt service and capital replacement	621,272	688,057	799,818
Unrestricted	12,222,057	10,818,578	9,797,272
Total net position	<u>4,394,919</u>	<u>4,629,086</u>	<u>4,043,687</u>
Total liabilities, deferred inflows, and net position	<u>\$ 28,187,723</u>	<u>\$ 28,832,118</u>	<u>\$ 29,083,773</u>

Operating Income

The first component of the overall change in the Hospital's net position is its operating income – generally, the difference between net patient service revenue and the expenses incurred to perform those services. There was operating income for the Hospital in the current fiscal year ending December 31, 2019 of \$150,911 compared to \$1,120,054 in the prior year, a decrease of \$969,143. Operating income for the Hospital in the prior fiscal year ending December 31, 2018 was \$1,120,054 compared to \$32,813 in 2017, or an increase of \$1,087,241.

Operating Revenues

There were significant changes in three individual revenue categories during 2019 when compared to 2018:

- Hospital inpatient gross revenue increased by \$599,470, hospital outpatient gross revenue increased by \$365,431, and clinic gross revenue increased \$42,735 for an overall increase of patient service revenue of \$1,007,636.
- Overall the contractual adjustments increased from \$11,064,488 in 2018 to \$11,709,353 in 2019. The Medicare hospital contractual adjustments decreased \$1,129,721, Medicaid hospital contractals increased \$840,305, other hospital contractals increased \$374,800, and clinic contractals increased \$559,481. During 2019, contractual adjustments decreased by \$262,000 due to change in estimates for reserves on Medicare, Medicaid, and DSH settlements.
- Provision for bad debts increased by \$244,738.

The significant changes in revenue categories during 2018 when compared to 2017 were:

- Hospital inpatient gross revenue increased by \$604,227, hospital outpatient gross revenue increased by \$2,875,697, and clinic gross revenue increased \$372,819 for an overall increase of patient service revenue of \$3,852,742.
- Contractual adjustments increased from \$8,844,303 in 2017 to \$11,064,488 in 2018. The Medicare hospital contractual adjustments increased \$2,182,282, Medicaid hospital contractals decreased \$721,686, other hospital contractals increased \$46,593, and clinic contractals increased \$712,996. During 2018, contractual adjustments increased by \$297,000 due to change in estimates for reserves on Medicare, Medicaid, and DSH settlements.
- Provision for bad debts increased by \$239,768.

Operating Expenses

There were significant changes in three individual expense categories during 2019 when compared to 2018:

- Salaries and wages increased by \$601,678 due to physicians leaving and being hired at various times throughout the year with sign on bonuses. In addition, there was a wage increase given to employees averaging about 4%.
- Employee benefits decreased by \$309,357 mainly due to a decrease in health insurance expense. While the Hospital had significant dollar amount claims, stop loss insurance was reached on several.
- Purchased services increased by \$717,258 due to an increase in usage of contracted employees in various areas including physical therapy, emergency room, and the Yuma clinic. There was also an increase in purchased services for software purchased and the start of the implementation of the new accounting software.

The significant changes in three individual expense categories during 2018 when compared to 2017 were:

- Salaries and wages decreased by \$168,112 due to physicians leaving and being hired at various times throughout the year and loss of employees throughout various departments.
- Employee benefits increased by \$183,606 due to an increase in health insurance expense, mostly due to premium increases.
- Purchased services increased by \$635,722 due to an increase in usage of contracted employees in various areas including medical/surgical, radiology, emergency room, and the Yuma and Akron clinics.

The following table is a summary of the Hospital's revenues, expenses, and changes in net position:

Table 2: Operating Results and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenue			
Net patient service revenue	\$ 19,899,742	\$ 19,776,176	\$ 18,373,087
Other operating revenue	<u>477,433</u>	<u>357,045</u>	<u>271,628</u>
Total operating revenue	20,377,175	20,133,221	18,644,715
Operating Expenses	<u>20,226,264</u>	<u>19,013,167</u>	<u>18,611,902</u>
Operating Income	150,911	1,120,054	32,813
Nonoperating Expenses	<u>(385,078)</u>	<u>(534,655)</u>	<u>(665,123)</u>
Revenues in Excess of (Less Than) Expenses and Change in Net Position	(234,167)	585,399	(632,310)
Net Position, Beginning of Year	<u>4,629,086</u>	<u>4,043,687</u>	<u>4,675,997</u>
Net Position, End of Year	<u>\$ 4,394,919</u>	<u>\$ 4,629,086</u>	<u>\$ 4,043,687</u>

Summary

The Hospital experienced an increase in patient days when compared to the fiscal year ending December 31, 2018. In the prior fiscal year, the Hospital had 456 patient days and the fiscal year ending December 31, 2019 had 497 patient days, an increase of 41 patient days or approximately 9%. Swing bed days increased from 153 in 2018 to 225 in 2019, an increase of 72 days or 47%. The following factors had a major impact on hospital revenues: 1) increase in the patient days as noted above, 2) increase in swing bed days as noted above, and 3) some increases in rates to benchmark rates in various departments.

In the fiscal year ending December 31, 2018, the Hospital experienced an increase in patient days when compared to the fiscal year ended December 31, 2017. The Hospital had 400 patient days in 2017 compared to the 456 patient days in 2018, an increase of 56 patient days or approximately 14%. Swing bed days increased by 21 days or 16% from fiscal year 2017 to 2018. The following factors had a major impact on hospital revenues: 1) increase in the patient days as noted above, 2) overall increase in the Yuma and Akron Clinic visits of 476, and 3) some increases in rates to benchmark rates in various departments.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Yuma District Hospital, 1000 West 8th Avenue, Yuma, Colorado, 80759, phone number 970-848-5405.

Yuma District Hospital
Statements of Net Position – Assets
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,336,293	\$ 1,856,923
Current portion of cash held by trustee for debt service	69,976	47,186
Receivables		
Patient, net of estimated uncollectibles		
of \$481,000 in 2019 and \$648,000 in 2018	2,088,771	2,078,638
Estimated third-party settlements	-	16,000
Ad valorem taxes	742,102	738,246
Supplies	322,017	367,696
Prepaid expenses	143,660	98,455
	6,702,819	5,203,144
Noncurrent Cash and Investments		
Internally designated for specific operating purposes and		
capital improvements	8,743,159	8,689,310
Restricted by trustee for debt reserve and capital		
asset replacement	1,896,381	3,140,871
	10,639,540	11,830,181
Capital Assets		
Capital assets not being depreciated	1,222,600	1,222,600
Capital assets being depreciated, net	9,622,764	10,576,193
	10,845,364	11,798,793
Total assets	\$ 28,187,723	\$ 28,832,118

Yuma District Hospital
 Statements of Net Position – Liabilities, Deferred Inflows of Resources and Net Position
 December 31, 2019 and 2018

	2019	2018
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 658,844	\$ 670,526
Accounts payable		
Trade	466,959	428,997
Estimated third-party payor settlements	253,800	11,000
Accrued expenses		
Salaries and wages	248,937	219,091
Earned time days	862,301	859,736
Health insurance	191,314	191,314
Interest	222,620	224,537
Payroll taxes and other	165,912	153,769
Total current liabilities	3,070,687	2,758,970
Long-Term Debt, Less Current Maturities	19,980,015	20,705,816
Total liabilities	23,050,702	23,464,786
Deferred Inflow of Resources - Ad Valorem Taxes	742,102	738,246
Net Position		
Net investment in capital assets	(8,448,410)	(6,877,549)
Restricted - expendable held by trustee for debt service and capital asset replacement	621,272	688,057
Unrestricted	12,222,057	10,818,578
Total net position	4,394,919	4,629,086
Total liabilities, deferred inflows of resources, and net position	\$ 28,187,723	\$ 28,832,118

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

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$992,591 in 2019 and \$747,853 in 2018	\$ 19,899,742	\$ 19,776,176
Other revenue	477,433	357,045
Total operating revenues	<u>20,377,175</u>	<u>20,133,221</u>
Operating Expenses		
Salaries and wages	8,414,152	7,812,474
Employee benefits	2,192,127	2,501,484
Purchased services	3,812,581	3,095,323
Supplies	2,076,313	1,879,917
Depreciation	1,031,243	948,044
Other	2,699,848	2,775,925
Total operating expenses	<u>20,226,264</u>	<u>19,013,167</u>
Operating Income	<u>150,911</u>	<u>1,120,054</u>
Nonoperating Revenues (Expenses)		
Ad valorem taxes	803,248	796,237
Interest expense	(1,212,434)	(1,465,784)
Unrestricted gifts and bequests	31,581	19,235
Investment income	308,007	118,411
Loss on refinancing of long-term debt	(315,480)	-
Loss on disposal of capital assets	-	(2,754)
Total nonoperating revenue (expenses)	<u>(385,078)</u>	<u>(534,655)</u>
Revenues in Excess of (Less Than) Expenses and Change in Net Position	(234,167)	585,399
Net Position, Beginning of Year	<u>4,629,086</u>	<u>4,043,687</u>
Net Position, End of Year	<u>\$ 4,394,919</u>	<u>\$ 4,629,086</u>

Yuma District Hospital
Statements of Cash Flows – page 1
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 20,148,409	\$ 20,037,190
Payments for employees' services and benefits	(10,561,725)	(10,232,647)
Payments to suppliers for goods and services	(8,550,306)	(7,995,339)
Other receipts and payments, net	477,433	357,045
Net Cash From Operating Activities	1,513,811	2,166,249
Noncapital Financing Activities		
Ad valorem taxes received	803,248	796,237
Unrestricted gifts and bequests	31,581	19,235
Net Cash From Noncapital Financing Activities	834,829	815,472
Capital and Capital Related Financing Activities		
Purchase of capital assets	(77,814)	(29,493)
Repayment of long-term debt	(737,483)	(594,405)
Interest paid on long-term debt obligations	(1,214,351)	(1,471,282)
Loss on refinancing of long-term debt	(315,480)	-
Loss on disposal of capital assets	-	(2,754)
Net Cash Used For Capital and Capital Related Financing Activities	(2,345,128)	(2,097,934)
Investing Activities		
Purchases of investments internally designated	(160,185)	(62,699)
Investment income	308,007	118,411
Net Cash From Investing Activities	147,822	55,712
Change in Cash and Cash Equivalents	151,334	939,499
Cash and Cash Equivalents, Beginning of Year	5,393,418	4,453,919
Cash and Cash Equivalents, End of Year	\$ 5,544,752	\$ 5,393,418
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents and current portion of cash held by trustee for debt service in current assets	\$ 3,406,269	\$ 1,904,109
Cash and cash equivalents internally designated for specific operating purposes and capital improvements and restricted by trustee for debt reserve and capital asset replacement in noncurrent cash and investments	2,138,483	3,489,309
Total cash and cash equivalents	\$ 5,544,752	\$ 5,393,418

Yuma District Hospital
 Statements of Cash Flows – page 2
 Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to Net Cash		
From Operating Activities		
Operating income	\$ 150,911	\$ 1,120,054
Adjustments to reconcile operating income		
to net cash from operating activities		
Provision for bad debts	992,591	747,853
Depreciation	1,031,243	948,044
Changes in assets and liabilities		
Receivables	(1,002,724)	(620,438)
Supplies	45,679	(31,370)
Prepaid expenses	(45,205)	(49,559)
Accounts payable	37,962	(163,245)
Estimated third-party payor settlements	258,800	133,599
Accrued expenses	44,554	81,311
Net Cash From Operating Activities	\$ 1,513,811	\$ 2,166,249
Supplemental Disclosure of Noncash Capital and Capital Related		
Financing Activities		
Equipment financed through capital lease arrangement	\$ -	\$ 291,742

Note 1 - Reporting Entity and Significant Accounting Policies

The financial statements of Yuma District Hospital (Hospital) 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 Hospital are described below.

Reporting Entity

The Hospital is a licensed 15-bed critical access hospital and clinic located in Yuma, Colorado and a clinic in Akron, Colorado and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code 501(a). In 1967, Yuma District Hospital was created as a political subdivision of the state of Colorado. The Hospital's five-member board of directors is publicly elected by the citizens of the Yuma Hospital District, a subset of Yuma County, to oversee the operations and management of the Hospital.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered the potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The Hospital has no significant operational or other financial relationships with any other governmental unit that requires inclusion or disclosure in the Hospital's financial statements.

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 Hospital's assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following components:

Net Investment in Capital Assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

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 Hospital.

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 Hospital'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 excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

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.

Ad Valorem Tax Receivable and Revenue

Ad valorem tax receivable is recognized on the lien date, which is January 1 of the tax year in Colorado. The ad valorem tax receivable represents 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 ad valorem 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

Supplies

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

Noncurrent Cash and Investments

Noncurrent cash and investments are set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes and restricted by trustee for debt reserve and capital asset replacement. Certificates of deposit and other deposits are recorded at historical cost. Other investments are measured at fair value.

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 on the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements	10-20 years
Buildings and fixed equipment	5-40 years
Major movable equipment	3-20 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 Hospital's employees accrue Earned Time Days (ETD) that can be drawn upon for vacation, holidays, and certain other absences. ETDs accrue at varying rates depending on years of service and hours worked. ETDs accumulate up to a specified maximum. Employees are paid for accumulated ETD upon termination.

Self-Funded Health Insurance

The Hospital self-funds health benefits for eligible employees and their dependents. Health insurance expense is recorded on an accrual basis. The Hospital provides for self-insurance reserves for estimated incurred but not yet reported claims for its employees. These reserves, which are included in the liabilities on the statement of net position, are estimated based upon historical submission and payment data, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

Deferred Inflows of Resources

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

Operating Revenues and Expenses

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

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital 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 Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The amount of charges foregone for services provided under the Hospital's charity care policy were approximately \$55,542 and \$61,075 for the years ended December 31, 2019 and 2018. The estimated cost of providing these services was approximately \$36,000 and \$40,000 for the years ended December 31, 2019 and 2018, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Colorado Healthcare Affordability & Sustainability Enterprise (CHASE) Program

The Hospital participates in the state of Colorado CHASE program, approved by the Centers for Medicare and Medicaid Services (CMS), under which all hospitals in the state were assessed a fee based on bed size and payor mix. The state of Colorado uses the fees to supplement state budget funds for the Medicaid program, which brings matching federal monies into the program, enabling the state of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible. The Hospital's expense was approximately \$580,000 and \$699,000 in provider fees for the years ended December 31, 2019 and 2018, which are recorded in other operating expenses. The Hospital's revenue was approximately \$2,240,000 and \$2,311,000 of supplemental payments for the years ended December 31, 2019 and 2018, which are recorded as part of net patient service revenue.

Grants and Contributions

The Hospital may receive grants as well as contributions from individuals, private organizations, and from the State of Colorado. 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 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 Hospital 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 Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare – The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under cost reimbursement methodology, with final settlement determined after submission of annual cost reports by the Hospital, which are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital’s Medicare cost reports have been audited by the MAC through the year ended December 31, 2016. Certain services are paid on a fixed fee schedule.

Medicaid – Inpatient services and outpatient services after November 1, 2016 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. Outpatient services prior to November 1, 2016 related to Medicaid beneficiaries are paid at interim rates based on Medicaid cost-to-charge ratio. Retrospective settlements based on audited cost-to-charge ratios are made periodically. The Hospital’s Medicaid cost reports have been settled by the Medicaid program through December 31, 2016.

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

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital’s patient service revenues for the years ended December 31, 2019 and 2018:

	2019	2018
Medicare	48%	54%
Medicaid	20%	18%
Other insurance	30%	26%
Private pay	2%	2%
	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. The net patient service revenue for the years ended December 31, 2019 and 2018 increased approximately \$262,000 and \$297,000 due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

A summary of patient service revenue, contractual adjustments, and bad debts for the years ended December 31, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Patient service revenue		
Hospital	\$ 27,786,951	\$ 26,822,050
Clinics	4,870,277	4,827,542
Charity care	<u>(55,542)</u>	<u>(61,075)</u>
Total patient service revenue	<u>32,601,686</u>	<u>31,588,517</u>
Contractual adjustments		
Hospital		
Medicare	(6,150,262)	(7,279,983)
Medicaid	(1,320,917)	(480,612)
Other	(2,381,432)	(2,006,632)
Clinics	<u>(1,856,742)</u>	<u>(1,297,261)</u>
Total contractual adjustments	<u>(11,709,353)</u>	<u>(11,064,488)</u>
Provision for bad debts	<u>(992,591)</u>	<u>(747,853)</u>
Net patient service revenue	<u>\$ 19,899,742</u>	<u>\$ 19,776,176</u>

Note 3 - Deposits, Investments, and Investment Income

The carrying amount of deposits and investments as of December 31, 2019 and 2018 are included in the Hospital's statement of net position as follows:

	<u>2019</u>	<u>2018</u>
Carrying Amount		
Deposits	\$ 5,544,752	\$ 5,393,418
Investments	<u>8,501,057</u>	<u>8,340,872</u>
	<u>\$ 14,045,809</u>	<u>\$ 13,734,290</u>

Deposits and investments are reported in the following statement of net position captions:

Cash and cash equivalents	\$ 3,336,293	\$ 1,856,923
Current portion of cash held by trustee for debt service	69,976	47,186
Noncurrent cash and investments internally designated for specific operating purposes and capital improvements	8,743,159	8,689,310
Noncurrent cash and investments held by trustee for debt reserve and capital asset replacement	<u>1,896,381</u>	<u>3,140,871</u>
Carrying value	<u>\$ 14,045,809</u>	<u>\$ 13,734,290</u>

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital's deposits may not be returned to it. 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. The Hospital's investment policy does not address custodial credit risk.

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, the Hospital's deposits were in banks covered under PDPA or were in banks with balances under FDIC limits.

Investments

The Hospital's investments are reported at fair value. The Hospital is authorized by statute to invest funds in debt securities.

The Hospital had the following investments and maturities at December 31, 2019:

December 31, 2019 Investment Type	Carrying Amount	Rating	Investment Maturities (in Years)			
			Less Than 1	1-5	6-10	More Than 10
Corporate fixed income	\$ 170,358	Aaa	\$ -	\$ 170,358	\$ -	\$ -
Federal Farm Credit Banks	127,531	Aaa	-	127,531	-	-
Federal Home Loan Bank	935,465	Aaa	-	935,465	-	-
Federal National Mortgage Association	1,315,300	N/A	-	149,633	215,310	950,357
Federal National Mortgage Association Note	338,771	Aaa	-	338,771	-	-
Fannie Mae Pool	743,957	N/A	-	280,435	463,522	-
Federal Home Loan Mortgage Corporation	1,951,427	N/A	-	1,185,535	600,234	165,658
Government National Mortgage Association	327,880	N/A	-	-	-	327,880
Freddie Mac Group	121,814	N/A	-	-	121,814	-
Private Export Funding Corporation	775,406	Aaa	-	775,406	-	-
Tennessee Valley Authority Debenture	85,867	Aaa	-	85,867	-	-
U.S. Treasury notes	1,607,281	Aaa	-	1,607,281	-	-
Total	\$ 8,501,057		\$ -	\$ 5,656,282	\$ 1,400,880	\$ 1,443,895

The Hospital had the following investments and maturities at December 31, 2018:

December 31, 2018 Investment Type	Carrying Amount	Rating	Investment Maturities (in Years)			
			Less Than 1	1-5	6-10	More Than 10
Corporate fixed income	\$ 311,001	Aaa	\$ -	\$ 311,001	\$ -	\$ -
Federal Farm Credit Banks	125,924	Aaa	-	125,924	-	-
Federal Home Loan Bank	585,480	Aaa	-	585,480	-	-
Federal National Mortgage Association	1,666,460	N/A	-	293,410	336,058	1,036,992
Federal National Mortgage Association Note	921,221	Aaa	-	921,221	-	-
Fannie Mae Pool	841,927	N/A	-	127,363	714,564	-
Federal Home Loan Mortgage Corporation	2,353,717	N/A	-	1,280,883	784,779	288,055
Government National Mortgage Association	194,706	N/A	-	-	-	194,706
Freddie Mac Group	171,884	N/A	-	-	171,884	-
U.S. Treasury notes	1,168,552	Aaa	-	1,168,552	-	-
Total	\$ 8,340,872		\$ -	\$ 4,813,834	\$ 2,007,285	\$ 1,519,753

Interest Rate Risk

Colorado statutes limit the investment in corporate or bank debt to maturities of three years from the date of settlement at the time of purchase. In addition, the statutes state that it is lawful to hold investments from certain federal entities with maturity dates of five years or less from the date of purchase unless the governing body of the public entity authorizes investments for a period in excess of five years. The Hospital's governing body has authorized the extension of the maturity beyond five years. The Hospital's investment policy does not contain provisions that further limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Hospital is in compliance with Colorado statutes.

Credit Risk

Colorado statutes limit investments in any corporate or bank debt securities to organizations with a net worth in excess of two hundred fifty million dollars and they must carry at least two credit ratings from the nationally recognized credit rating agencies and must not be rated below "AA- or Aa3" by any credit rating agency. The Hospital's investment policy states that all investments must be rated in one of its top three highest rating categories by one nationally recognized credit rating agencies.

Concentration of Credit Risk

Colorado statutes limit the amount of corporate or bank debt securities to not exceed 30% of the book value of the entity's total investment portfolio at the time of purchase. The statutes also limit investments in corporate or bank debt securities by any one individual corporation to not exceed 5% of the total investment portfolio at the time of purchase, unless the governing body of the public entity authorizes the investments. The Hospital places no additional limit on the amount it may invest in any one issuer. The Hospital was considered to be in compliance with state statutes and its investment policy at December 31, 2019 and 2018.

More than 5 percent of the Hospital's investments are invested in the following securities at December 31, 2019 and 2018:

	2019	2018
Federal National Mortgage Association	15%	20%
Federal Home Loan Mortgage Corporation	22%	28%
US Treasury Notes	18%	14%
Fannie Mae Pool	9%	10%
Federal Home Loan Bank	11%	7%
Private Export Funding Corporation	9%	0%

Investment Income

Investment income on cash equivalents and investments consists of the following for the years ended December 31, 2019 and 2018:

	2019	2018
Interest income and realized gains and losses	\$ 292,610	\$ 229,875
Change in unrealized gains and losses on investments	15,397	(111,464)
Total investment income	\$ 308,007	\$ 118,411

Note 4 - Fair Value of Assets

The Hospital has determined the fair value of certain assets and liabilities in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritized the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability.

Assets and liabilities measured at fair value on a recurring basis and the related fair values of these assets and liabilities at December 31, 2019 and 2018 are as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2019				
Corporate fixed income	\$ 170,358	\$ -	\$ 170,358	\$ -
Federal Farm Credit Banks	127,531	-	127,531	-
Federal Home Loan Bank	935,465	-	935,465	-
Federal National Mortgage Association	1,315,300	-	1,315,300	-
Federal National Mortgage Associate Note	338,771	-	338,771	-
Fannie Mae Pool	743,957	-	743,957	-
Federal Home Loan Mortgage Corporation	1,951,427	-	1,951,427	-
Government National Mortgage Association	327,880	-	327,880	-
Freddie Mac Group	121,814	-	121,814	-
Private Export Funding Corp	775,406	-	775,406	-
Tennessee Valley Authority Debenture	85,867	-	85,867	-
U.S. Treasury Notes	1,607,281	-	1,607,281	-
	<u>\$ 8,501,057</u>	<u>\$ -</u>	<u>\$ 8,501,057</u>	<u>\$ -</u>
December 31, 2018				
Corporate fixed income	\$ 311,001	\$ -	\$ 311,001	\$ -
Federal Farm Credit Banks	125,924	-	125,924	-
Federal Home Loan Bank	585,480	-	585,480	-
Federal National Mortgage Association	1,666,460	-	1,666,460	-
Federal National Mortgage Associate Note	921,221	-	921,221	-
Fannie Mae Pool	841,927	-	841,927	-
Federal Home Loan Mortgage Corporation	2,353,717	-	2,353,717	-
Government National Mortgage Association	194,706	-	194,706	-
Freddie Mac Group	171,884	-	171,884	-
U.S. Treasury Notes	1,168,552	-	1,168,552	-
	<u>\$ 8,340,872</u>	<u>\$ -</u>	<u>\$ 8,340,872</u>	<u>\$ -</u>

The fair value of the investments noted are estimated using a variety of techniques including quoted market price of similar items, broker/dealer quotes, and models using market interest rates or yield curves and are included in Level 2.

Note 5 - Capital Assets

Capital asset additions, retirements, transfers, and balances for the year ended December 31, 2019 are as follows:

	Balance December 31, 2018	Additions	Transfers and Retirements	Balance December 31, 2019
Capital assets not being depreciated				
Land	\$ 1,222,600	\$ -	\$ -	\$ 1,222,600
Capital assets being depreciated				
Land improvements	1,171,644	15,200	-	1,186,844
Buildings and improvements	19,521,702	13,700	-	19,535,402
Equipment	10,221,989	48,914		10,270,903
Total capital assets being depreciated	30,915,335	\$ 77,814	\$ -	30,993,149
Less accumulated depreciation for:				
Land improvements	(681,024)	\$ (68,114)	\$ -	(749,138)
Buildings and improvements	(10,284,164)	(680,224)	-	(10,964,388)
Equipment	(9,373,954)	(282,905)		(9,656,859)
Total accumulated depreciation	(20,339,142)	\$ (1,031,243)	\$ -	(21,370,385)
Net capital assets being depreciated	10,576,193			9,622,764
Capital assets, net	\$ 11,798,793			\$ 10,845,364

Capital asset additions, retirements, transfers, and balances for the year ended December 31, 2018 are as follows:

	Balance December 31, 2017	Additions	Transfers and Retirements	Balance December 31, 2018
Capital assets not being depreciated				
Land	\$ 1,222,600	\$ -	\$ -	\$ 1,222,600
Capital assets being depreciated				
Land improvements	1,171,644	-	-	1,171,644
Buildings and improvements	19,521,702	-	-	19,521,702
Equipment	9,910,243	329,904	(18,158)	10,221,989
Total capital assets being depreciated	30,603,589	\$ 329,904	\$ (18,158)	30,915,335
Less accumulated depreciation for:				
Land improvements	(613,754)	\$ (67,270)	\$ -	(681,024)
Buildings and improvements	(9,664,745)	(619,419)	-	(10,284,164)
Equipment	(9,122,088)	(261,355)	9,489	(9,373,954)
Total accumulated depreciation	(19,400,587)	\$ (948,044)	\$ 9,489	(20,339,142)
Net capital assets being depreciated	11,203,002			10,576,193
Capital assets, net	\$ 12,425,602			\$ 11,798,793

Note 6 - Lease Obligations

The Hospital leases certain equipment under noncancelable long-term lease agreements. The capitalized leased assets consist of the following at December 31, 2019 and 2018:

	2019	2018
Major movable equipment	\$ 415,006	\$ 415,006
Less accumulated amortization	(124,712)	(41,711)
	\$ 290,294	\$ 373,295

Minimum future lease payments for the capital leases are as follows:

Years Ending December 31,	Amount
2020	\$ 79,915
2021	62,795
2022	62,795
2023	47,096
	252,601
Total minimum lease payments	252,601
Less interest	(13,488)
	\$ 239,113
Present value of minimum lease payments - Note 7	\$ 239,113

Note 7 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for December 31, 2019 and 2018 is as follows:

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Amounts Due Within One Year
Mortgage note	\$ 14,909,704	\$ -	\$ (427,649)	\$ 14,482,055	\$ 468,938
Hospital Revenue Bond	6,029,251	-	(111,560)	5,917,691	116,163
Northstar Bank note	96,019	-	(96,019)	-	-
Capital lease obligations	341,368	-	(102,255)	239,113	73,743
	\$ 21,376,342	\$ -	\$ (737,483)	\$ 20,638,859	\$ 658,844
Total long-term debt	\$ 21,376,342	\$ -	\$ (737,483)	\$ 20,638,859	\$ 658,844
	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Amounts Due Within One Year
Mortgage note	\$ 15,243,401	\$ -	\$ (333,697)	\$ 14,909,704	\$ 361,194
Hospital Revenue Bond	6,136,391	-	(107,140)	6,029,251	111,561
Northstar Bank note	209,813	-	(113,794)	96,019	96,019
Capital lease obligation	89,400	291,742	(39,774)	341,368	101,752
	\$ 21,679,005	\$ 291,742	\$ (594,405)	\$ 21,376,342	\$ 670,526
Total long-term debt	\$ 21,679,005	\$ 291,742	\$ (594,405)	\$ 21,376,342	\$ 670,526

Under the terms of the mortgage note payable and Hospital Revenue Bond, the Hospital is limited in the incurrence of additional borrowings, has limitations on purchases of capital assets, and is required to satisfy certain measures of financial performance, defined in the indenture agreements. In addition, the Hospital is required to maintain certain funds for debt reserve. At December 31, 2019, the Hospital did not meet the covenant for debt service coverage. The lender may request completion of a business plan to correct the default or review of operations by an independent consultant, at the Hospital's expense; however, neither has been requested as of the date of this report.

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

- 6.14% mortgage note payable, due in monthly installments of \$112,090, including interest, to August 2037, secured by building, equipment, and net revenues of the Hospital, guaranteed 90% by the U.S. Department of Agriculture. During 2019, this note payable was refinanced. The agreement reduced the interest rate from 7.99% to 6.14%, reduced the requirement for the debt service reserve account from \$2,700,000 to \$1,345,085, and removed certain measures of financial performance. Due to the refinancing, the Hospital recognized a loss on refinancing in the amount of \$315,480 which is included in nonoperating revenues and expenses on the statements of revenues, expenses, and changes in net position.
- 4.125% Hospital Revenue Bond payable to the U.S. Department of Agriculture, due in annual installments of \$360,290, including interest, to July 2047, secured by building, equipment, and net revenues of the Hospital subordinate to the mortgage note payable.
- 3.60% loan payable to Northstar Bank of Colorado, paid in full in 2019.
- 10.7% capital lease obligation, due in monthly installments of \$3,424, including interest, to June 2020, secured by equipment.
- 3.03% capital lease obligation, due in monthly installments of \$5,233, including interest, to September 2023, secured by equipment.

Scheduled debt service requirements for the Hospital's long-term debt are as follows:

<u>Years Ending December 31,</u>	<u>Long-Term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 658,844	\$ 1,126,852
2021	678,100	1,090,070
2022	715,071	1,051,793
2023	694,659	1,011,305
2024	735,660	969,715
2025-2029	4,385,285	4,141,591
2030-2034	5,852,769	2,674,107
2035-2039	4,457,542	930,802
2040-2044	1,415,768	385,682
2045-2047	1,045,161	83,407
Total	<u>\$ 20,638,859</u>	<u>\$ 13,465,324</u>

Note 8 - Deferred Compensation Plan

The Hospital sponsors a deferred compensation plan through annuity contracts with a trustee in accordance with Internal Revenue Code (IRC) Section 457. The plan is available to eligible Hospital employees and permits them to defer a portion of their compensation for retirement purposes. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The deferred compensation is invested for the participants by the Hospital under the plan agreements.

The Hospital also sponsors a 401(a) plan, under which all employees who have completed one year of service are eligible to participate. Participants may defer a portion of their compensation up to specified limits according to the IRC. The Hospital contributes up to 4% of eligible employee compensation annually. Total employer retirement expense for the years ended December 31, 2019, 2018, and 2017 was \$257,894, \$251,392, and \$241,561. The Hospital fully funds all compensation deferred under the plan agreement on a current basis. The assets are invested within various fund pools established and maintained by the plan trustee.

Note 9 - Concentration of Credit Risk

The Hospital 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
Medicare	36%	49%
Medicaid	14%	9%
Commercial insurance and other third-party payors	35%	23%
Patients	15%	19%
	100%	100%

Note 10 - Contingencies

Risk Management

The Hospital 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 Hospital has malpractice insurance coverage to provide protection for the 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.

Self-Disclosure of Potential Violations of Stark Law

In December 2016, the Hospital made a disclosure to the Center for Medicare and Medicaid Services (CMS) under the agency's Stark Law Voluntary Self-Referral Disclosure Protocol relating to the compensation paid to an employed physician. Disclosure of this matter also was made to Colorado Medicaid. As stated in the disclosures, after obtaining an independent compensation review, the Hospital was unable to certify that the compensation paid to the physician reflected the fair market value of the physician's services during a six-year period. The Hospital has not received a response to the disclosure from CMS. The Hospital has recently received a request for additional information from Medicaid and is cooperating in providing this information. There is little data or experience with resolution of matters disclosed under the CMS protocol and the ultimate outcome of the matter is difficult to estimate. However, the Hospital intends to cooperate with the agencies in their review of this matter and believes that the inadvertence of any discrepancy in compensation as well as the voluntary nature of the disclosure are significant mitigating factors. The Hospital has not accrued an estimated settlement in the financial statements due to the limited data and experience with resolution of these matters.

Litigation, Claims, and Disputes

The Hospital 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 Hospital.

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 with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Self-Funded Health Insurance

The Hospital is self-funded for health benefits for eligible employees and their dependents. The Hospital, in connection with this plan, recognizes health benefit expenses on an accrual basis. An accrued liability is recorded at year-end which estimates the incurred but not reported claims that will be paid by the Hospital. The Hospital has stop loss insurance to cover catastrophic claims in excess of \$60,000 per claim and an annual aggregate limit of \$1,267,273 for the plan year ended February 29, 2020.

The Hospital expensed amounts representing the employer's portion of actual claims paid, adjusted for the estimates of liabilities relating to claims resulting from services provided prior to the fiscal year end not to exceed the annual aggregate expense. The estimated liability is included in accrued expenses in the financial statements. These amounts have been estimated based on historical trends and actuarial analysis.

Changes in the balance of claims liabilities during the past two years are as follows:

<u>Year</u>	<u>Beginning Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
2019	\$ 191,314	\$ 1,228,518	\$ (1,228,518)	\$ 191,314
2018	181,739	1,606,031	(1,596,456)	191,314

Note 11 - Subsequent Events

Subsequent to year-end, the Hospital has been impacted by the effects of the world-wide coronavirus pandemic. The Hospital 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 the issuance of these financial statements, the full impact of the Hospital's financial position is not known.

The Hospital has evaluated subsequent events through June 25, 2020, the date which the financial statements are available to be issued.



Supplementary Information
December 31, 2019 and 2018
Yuma District Hospital



Independent Auditor's Report on Supplementary Information

The Board of Directors
Yuma District Hospital
Yuma, Colorado

We have audited the financial statements of Yuma District Hospital as of and for the years ended December 31, 2019 and 2018, and our report thereon dated June 25, 2020, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on page 32 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, excluding the budget information noted below, is the responsibility of management and is 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 budget information shown on page 32, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The budget information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
June 25, 2020

Yuma District Hospital
Schedule of Revenues and Expenses – Budget and Actual
Year Ended December 31, 2019

	Budget (unaudited)	Actual	Variance Favorable/ (Unfavorable)
Operating Revenues			
Net patient service revenue	\$ 19,966,655	\$ 19,899,742	\$ (66,913)
Other revenue	164,249	477,433	313,184
Total operating revenues	20,130,904	20,377,175	246,271
Nonoperating Revenues (Expense)			
Ad valorem taxes	748,844	803,248	54,404
Interest expense	(1,417,240)	(1,212,434)	204,806
Unrestricted gifts and bequests	19,988	31,581	11,593
Investment income	219,150	308,007	88,857
Loss on refinancing of long-term debt	-	(315,480)	(315,480)
Total nonoperating revenues (expense)	(429,258)	(385,078)	44,180
Total revenues	\$ 19,701,646	\$ 19,992,097	\$ 290,451
Expenses			
Salaries and wages	\$ 8,211,735	\$ 8,414,152	\$ (202,417)
Employee benefits	2,804,049	2,192,127	611,922
Depreciation	1,044,782	1,031,243	13,539
Supplies	1,718,829	2,076,313	(357,484)
Purchased services	3,283,047	3,812,581	(529,534)
Other	2,891,009	2,699,848	191,161
Total expenses	19,953,451	20,226,264	(272,813)
Capital Budget	341,000	77,814	263,186
Debt Retirement			
Principal paid	670,526	737,483	(66,957)
Total expenditures	\$ 20,964,977	\$ 21,041,561	\$ (76,584)

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 accounting principles generally accepted in the United States of America.
2. Management believes that the Hospital is compliant with the rules of Colorado's Taxpayer's Bill of Rights (TABOR).



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
Yuma District Hospital
Yuma, 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 Audit Standards*, issued by the Comptroller General of the United States, the statements of net position of Yuma District Hospital (Hospital) as of and for the year ended December 31, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and have issued our report thereon dated June 25, 2020.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider deficiencies 2019-A and 2019-B described in the accompanying Schedule of Findings and Responses to be material weaknesses.

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. We consider deficiency 2019-C in the accompanying Schedule of Findings and Responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of the Hospital'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*.

The Hospital's Responses to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Hospital'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

The purpose of this report is 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 Hospital's internal control on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
June 25, 2020

2019-A Preparation of Financial Statements
Material Weakness in Internal Control over Financial Reporting

Criteria – A properly designed system of internal control over financial reporting includes preparation of an entity’s financial statements and accompanying notes by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements, including the accompanying footnotes, in accordance with generally accepted accounting principles (GAAP).

Condition – The Hospital does not have an internal control system designed to provide for the preparation of financial statements and related footnotes being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. In addition, audit adjustments were required that were considered material to the financial statements.

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

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the entity. The outside party does not have constant contact with the ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial statements. It is the responsibility of the Hospital’s management and those charged with governance to make a decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Views of Responsible Officials – Management agrees with the finding.

2019-B Account Reconciliations and Material Audit Adjustments
Material Weakness in Internal Control over Financial Reporting

Criteria – A good system of internal control involves reconciliation of accounts on a monthly basis, with review for accuracy and timeliness.

Condition – Currently, there are accounts that are not being reconciled properly and this has resulted in differences in the internal financial statements throughout the year and proposed audit adjustments. As a result, the audit process included preparation of entries. Although significant progress has been made compared to prior years, with inaccurate financial statements, it is difficult to make changes in the operations on a timely basis in response to financial performance and make appropriate decisions for the future.

Cause – A proper reconciliation between the Hospital’s general ledger and subsidiary accounts was not performed resulting in material adjustments.

Effect – The design of internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The need for these adjustments indicates that the Hospital’s interim financial information is not materially correct, which may affect management decisions made during the course of the year.

Recommendation – We recommend that the accounts be reviewed concurrently with monthly close out procedures by printing monthly reports from the modules and reconcile the balances with the general ledger. Any differences should be investigated and corrected on a timely basis. In addition to performing these reconciliations, an individual should be assigned to review the reconciliations on a monthly basis to ensure the accuracy and timeliness of the reconciliations.

Views of Responsible Officials – Management agrees with the finding.

2019-C

**Segregation of Duties
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 staffs of the Hospital does not facilitate the segregation of duties necessary to achieve a low level of control risk.

Cause – The Hospital’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 Hospital’s ability to detect and correct unintentional or intentional misstatements in amounts that would be material to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – While we recognize that the Hospital’s staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve the efficiency and effectiveness of the financial management of the Hospital.

Views of Responsible Officials – Management agrees with the finding.