

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

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2020 and 2019



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Prowers County Hospital District doing business as Prowers Medical Center (the District) as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements as a whole. The schedule of budget and actual revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of budget and actual revenues and expenses is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of budget and actual revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the District'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 the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
June 15, 2021

Prowers County Hospital District
doing business as Prowers Medical Center
Statements of Net Position
December 31, 2020 and 2019

ASSETS	2020	2019
<i>Current assets</i>		
Cash and cash equivalents	\$ 16,557,151	\$ 10,753,553
Receivables:		
Patient accounts	2,638,070	3,581,441
Estimated third-party payor settlements	2,651,559	1,779,000
Taxes	395,049	376,721
Other	133,570	169,118
Insurance settlement receivable	1,173,955	1,173,955
Inventories	1,077,853	694,334
Prepaid expenses	710,499	856,048
Total current assets	25,337,706	19,384,170
<i>Noncurrent assets</i>		
Capital assets, net	19,476,032	17,598,392
Total assets	\$ 44,813,738	\$ 36,982,562

See accompanying notes to basic financial statements.

Prowers County Hospital District
doing business as Prowers Medical Center
Statements of Net Position (Continued)
December 31, 2020 and 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2020	2019
<i>Current liabilities</i>		
Accounts payable	\$ 1,020,289	\$ 1,608,310
Accrued compensation and related liabilities	986,721	1,002,889
Unearned CARES Act Provider Relief Fund	4,223,191	-
Total current liabilities	6,230,201	2,611,199
<i>Noncurrent liabilities</i>		
Paycheck Protection Program loan	2,896,900	-
Total liabilities	9,127,101	2,611,199
<i>Deferred inflows of resources, taxes</i>	395,049	376,721
<i>Net position</i>		
Net investment in capital assets	19,476,032	17,598,392
Unrestricted	15,815,556	16,396,250
Total net position	35,291,588	33,994,642
Total liabilities, deferred inflows of resources, and net position	\$ 44,813,738	\$ 36,982,562

See accompanying notes to basic financial statements.

Prowers County Hospital District
doing business as Prowers Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2020 and 2019

	2020	2019
<i>Operating revenues</i>		
Net patient service revenue	\$ 32,880,095	\$ 32,581,873
Grants	-	6,701
Other	143,119	173,778
Total operating revenues	33,023,214	32,762,352
<i>Operating expenses</i>		
Salaries and wages	12,503,022	12,323,987
Employee benefits	3,197,683	3,051,949
Professional fees and other purchased services	8,103,501	7,301,371
Supplies	4,878,197	5,244,359
Utilities	478,345	484,110
Depreciation	1,667,935	1,561,448
Insurance	319,306	300,656
Leases and rentals	207,997	198,466
Repairs and maintenance	155,712	235,951
Provider fees	899,351	863,143
Other	588,516	943,762
Total operating expenses	32,999,565	32,509,202
<i>Operating income</i>	23,649	253,150
<i>Nonoperating revenues</i>		
Property taxes	439,201	417,098
Investment income	89,601	193,714
CARES Act Provider Relief Fund	241,905	-
Total nonoperating revenues	770,707	610,812
Excess of revenues over expenses before capital grants and extraordinary item	794,356	863,962
<i>COVID-19 capital grants</i>	502,590	-
<i>Extraordinary item - gain on insurance settlement</i>	-	979,156
Change in net position	1,296,946	1,843,118
Net position, beginning of year	33,994,642	32,151,524
Net position, end of year	\$ 35,291,588	\$ 33,994,642

See accompanying notes to basic financial statements.

Prowers County Hospital District
doing business as Prowers Medical Center
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 32,950,907	\$ 30,818,965
Receipts from grants	-	6,701
Other receipts	143,119	173,778
Payments to and on behalf of employees	(15,716,873)	(15,730,836)
Payments to suppliers and contractors	(16,421,368)	(16,306,756)
Net cash (used in) provided by operating activities	955,785	(1,038,148)
<i>Cash flows from noncapital financing activities</i>		
Proceeds from CARES Act Provider Relief Fund	4,465,096	-
Proceeds from Paycheck Protection Program loan	2,896,900	-
Property taxes	439,201	422,022
Net cash provided by noncapital financing activities	7,801,197	422,022
<i>Cash flows from capital and related financing activities</i>		
Proceeds from insurance settlement	-	132,122
Proceeds from COVID-19 grants	502,590	-
Purchase of capital assets	(3,545,575)	(1,882,505)
Net cash used in capital and related financing activities	(3,042,985)	(1,750,383)
<i>Cash flows from investing activities</i>		
Investment income	89,601	193,714
Net increase (decrease) in cash and cash equivalents	5,803,598	(2,172,795)
Cash and cash equivalents, beginning of year	10,753,553	12,926,348
Cash and cash equivalents, end of year	\$ 16,557,151	\$ 10,753,553

See accompanying notes to basic financial statements.

Prowers County Hospital District
doing business as Prowers Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

	2020	2019
<i>Reconciliation of Operating Income to Net Cash (Used in) Provided by Operating Activities</i>		
Operating income	\$ 23,649	\$ 253,150
<i>Adjustments to reconcile operating income to net cash (used in) provided by operating activities</i>		
Depreciation	1,667,935	1,561,448
Provision for bad debts	1,797,781	1,337,989
(Increase) decrease in assets:		
Receivables:		
Patient accounts	(854,410)	(2,029,897)
Estimated third-party payor settlements	(872,559)	(1,071,000)
Other	35,548	(87,608)
Inventories	(383,519)	(73,201)
Prepaid expenses	145,549	9,239
Increase (decrease) in liabilities:		
Accounts payable	(588,021)	(583,368)
Accrued compensation and related liabilities	(16,168)	(354,900)
Net cash (used in) provided by operating activities	\$ 955,785	\$ (1,038,148)

See accompanying notes to basic financial statements.

**Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements
Years Ended December 31, 2020 and 2019**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

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

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

The District has no significant component units.

b. Summary of Significant Accounting Policies

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

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

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

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

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

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

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

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

b. Summary of Significant Accounting Policies (continued)

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of the District’s capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is composed of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. The District had no restricted net position as of December 31, 2020 or 2019. *Unrestricted net position* is composed of remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

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

Upcoming accounting standard pronouncements – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee’s right to use the leased asset, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending December 31, 2022, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

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

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements (continued) – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the District's year ending December 31, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

Subsequent events – The District has evaluated subsequent events through June 15, 2021, the date on which the financial statements were available to be issued.

2. Bank Deposits:

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

The District's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation or by deposits collateralized by securities not held in the District's name under the PDPA.

Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned.

The District invests in accordance with Colorado State law. Colorado State Statutes authorize the District to invest in obligations of the United States Treasury, agencies and instrumentalities, commercial paper, repurchase agreements, money market funds, and local government investment pools with a maturity date of no more than five years from the date of purchase.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

3. Patient Accounts Receivable:

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

The District's allowance for uncollectible accounts for self-pay patients did not significantly change. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

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

	2020	2019
Receivable from patients and their insurance carriers	\$ 2,972,842	\$ 3,584,200
Receivable from Medicare	1,012,386	1,215,836
Receivable from Medicaid	262,455	409,373
Total patient accounts receivable	4,247,683	5,209,409
Less allowance for uncollectible accounts	1,609,613	1,627,968
Patient accounts receivable, net	\$ 2,638,070	\$ 3,581,441

**Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019**

4. Property Taxes:

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

Taxes are due in two equal amounts by February 28 and June 15, or in one installment by April 30. The assessed property is subject to lien on the levy date. Property taxes are levied by the District and collected by the Prowers County Treasurer. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the District. No allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates. A deferred inflow of resources and a receivable were recorded at December 31, 2020 and 2019, for taxes levied for 2020 and 2019, respectively.

For 2020, the District's regular tax levy was \$2.723 per \$1,000 on a total assessed valuation of \$145,078,698, for a total regular levy of \$395,049. For 2019, the District's regular tax levy was \$2.723 per \$1,000 on a total assessed valuation of \$140,972,786, for a total regular levy of \$376,721.

5. Capital Assets:

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

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

Useful lives have been estimated as follows:

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

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

5. Capital Assets (continued):

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

	Balance December 31, 2019	Additions	Retirements	Transfers	Balance December 31, 2020
<i>Capital assets not being depreciated</i>					
Land	\$ 52,827	\$ -	\$ -	\$ -	\$ 52,827
Construction in progress	686,870	2,880,498	-	(2,011,701)	1,555,667
Total capital assets not being depreciated	739,697	2,880,498	-	(2,011,701)	1,608,494
<i>Capital assets being depreciated</i>					
Land improvements	595,008	-	-	-	595,008
Buildings and improvements	17,030,028	120,252	-	2,011,701	19,161,981
Equipment	18,358,693	544,825	(17,500)	-	18,886,018
Total capital assets being depreciated	35,983,729	665,077	(17,500)	2,011,701	38,643,007
<i>Less accumulated depreciation for</i>					
Land improvements	(283,509)	(45,188)	-	-	(328,697)
Buildings and improvements	(7,776,472)	(568,706)	-	-	(8,345,178)
Equipment	(11,065,053)	(1,054,041)	17,500	-	(12,101,594)
Total accumulated depreciation	(19,125,034)	(1,667,935)	17,500	-	(20,775,469)
<i>Total capital assets being depreciated, net</i>	16,858,695	(1,002,858)	-	2,011,701	17,867,538
Capital assets, net	\$ 17,598,392	\$ 1,877,640	\$ -	\$ -	\$ 19,476,032

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

5. Capital Assets (continued):

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 52,827	\$ -	\$ -	\$ -	\$ 52,827
Construction in progress	1,629	685,241	-	-	686,870
Total capital assets not being depreciated	54,456	685,241	-	-	739,697
<i>Capital assets being depreciated</i>					
Land improvements	595,008	-	-	-	595,008
Buildings and improvements	16,951,828	78,200	-	-	17,030,028
Equipment	17,239,629	1,119,064	-	-	18,358,693
Total capital assets being depreciated	34,786,465	1,197,264	-	-	35,983,729
<i>Less accumulated depreciation for</i>					
Land improvements	(246,084)	(37,425)	-	-	(283,509)
Buildings and improvements	(7,237,322)	(539,150)	-	-	(7,776,472)
Equipment	(10,080,180)	(984,873)	-	-	(11,065,053)
Total accumulated depreciation	(17,563,586)	(1,561,448)	-	-	(19,125,034)
Total capital assets being depreciated, net	17,222,879	(364,184)	-	-	16,858,695
Capital assets, net	\$ 17,277,335	\$ 321,057	\$ -	\$ -	\$ 17,598,392

Construction in progress at December 31, 2020, consisted primarily of:

- An MRI addition with estimated cost to complete of \$3,500,000 and estimated date of completion of October 2021.
- A nuclear medicine addition estimated cost to complete of \$350,000 and estimated date of completion of July 2021.
- An HVAC addition was completed in April 2021 with a cost of approximately of \$175,000.
- A laboratory expansion was completed in March 2021 with a cost of approximately of \$214,000.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

6. Employee Health Self-insurance:

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

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

	2020	2019
Claim liability, beginning of year	\$ 323,324	\$ 290,270
Current year claims and changes in estimates	1,935,060	1,805,831
Claim payments	(2,026,987)	(1,772,777)
Claim liability, end of year	\$ 231,397	\$ 323,324

7. Net Patient Service Revenue:

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

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

7. Net Patient Service Revenue (continued):

The District has not changed its charity care or uninsured discount policies during 2020 or 2019. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, follows:

	2020	2019
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 12,806,520	\$ 11,972,596
Medicaid	5,219,821	5,650,472
Other third-party payors	8,981,943	8,942,913
Patients	1,862,175	2,738,398
Supplemental payments	6,186,695	5,232,517
340B contract pharmacy	70,302	60,649
	35,127,456	34,597,545
Less:		
Charity care	449,580	677,683
Provision for bad debts	1,797,781	1,337,989
	\$ 32,880,095	\$ 32,581,873

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

- *Medicare* – The District has been designated a critical access hospital by Medicare and is reimbursed for inpatient and outpatient services and rural health clinic visits on a cost basis as defined and limited by the Medicare program. Physician services outside the rural health clinic are paid on a fee schedule. Home health is reimbursed on a prospective rate per episode of care. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.
- *Medicaid* – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicaid outpatient services are paid based on prospectively determined rates. Skilled nursing services are paid on prospectively determined rates per day. Rural health clinic encounters are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid. Physician services are reimbursed on a fee schedule.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

7. Net Patient Service Revenue (continued):

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$34,000 in 2020, and approximately \$18,000 in 2019, due to differences between the original estimates and revised estimates or final settlements.

Medicaid rural health clinic rate reconciliations are being conducted by the Colorado Department of Health Care Policy and Financing by adjusting the rate to the higher of the prospectively determined rate or the cost per encounter as determined by the District's annual Medicare cost reports. The District had estimated receivables for rate reconciliations of approximately \$217,000 and \$219,000 for the years ended December 31, 2020 and 2019, respectively.

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

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended 2020 and 2019 were approximately \$311,000 and \$411,000, respectively.

8. Defined Contribution Plan:

In 1982, the District adopted the Prowers Medical Center Employees' Pension Plan (the 403(b) Plan), a 403(b)-tax deferred annuity plan. In 2018, the District was notified that governmental entities are not allowed to participate in a 403(b)-tax deferred annuity plan. The District froze the 403(b) Plan effective March 1, 2019, and started a separate 401(a) plan effective March 1, 2019.

The District adopted the Prowers Medical Center Employees' Pension Plan (the Plan) effective March 1, 2019. The Plan is available to all employees who have completed one year of service and have reached the age of 21. In the first year of employment, employees may choose to make pre-tax contributions as a percentage of their gross pay, up to 6 percent. After one year of service, the District will match half of the employees' voluntary contributions up to 6 percent. Employees are permitted to make contributions up to the applicable Internal Revenue Code limits. Employee contributions to the Plan during the years ended December 31, 2020 and 2019, were approximately \$753,000 and \$549,000, respectively. The District made matching contributions to the Plan of approximately \$270,000 and \$227,000 for the years ended December 31, 2020 and 2019, respectively.

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

8. Defined Contribution Plan (continued):

The District had no liability to the Plan at December 31, 2020. Participants are fully vested in their contributions. District contributions are vested at 20 percent after one year of service with gradual increases until vesting reaches 100 percent after five years of service. A participant will become 100 percent vested immediately upon early retirement, attainment of normal retirement age, or death. Nonvested accounts are forfeited to the Plan and can be used to reduce future employer contributions. The District has the authority to amend the Plan.

The Prowers Medical Center Employees' Pension Plan (the 403(b) Plan), a 403(b)-tax deferred annuity plan, was frozen effective March 1, 2019. Employee contributions to the 403(b) Plan during the year ended December 31, 2019, was approximately \$165,000. The District made matching contributions to the 403(b) Plan of approximately \$63,000 for the years ended December 31, 2019. The District had no liability to the 403(b) Plan at December 31, 2020 and 2019.

9. Commitments:

The District entered into a management contract with Quorum Health Resources, LLC (QHR) on May 23, 2008, for the management, administration, and operation of the District. The agreement calls for the District to pay QHR an annual base fee, with a provision for annual increases based on the changes in the Consumer Price Index and pass-through salaries and benefit costs for management. The term of the agreement extends through December 31, 2022. The District's estimated future commitment to QHR for management fees and executive salaries is approximately \$1,155,000.

Total payments to QHR under the management contract during the years ended December 31, 2020 and 2019, were approximately \$784,000 and \$920,000, respectively.

10. Contingencies:

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

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

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

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

10. Contingencies (continued):

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

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

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

11. Concentration of Risk:

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

The mix of receivables from patients was as follows:

	2020	2019
Medicare	32 %	32 %
Medicaid	16	18
Other third-party payors	26	27
Patients	26	23
	100 %	100 %

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

Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

12. Roof Repair Agreement:

On March 11, 2020, the District entered into a contract with Colorado Moisture Control, Inc., for the repair of the hospital's roof. The roof repair is a result of roof hail damage from August 2017. Since the roof hail damage in August 2017, the District has been in negotiations with its insurance carrier to receive additional reimbursement to complete the roof repair. The District previously received reimbursement of approximately \$751,000 from its insurance carrier. In April 2021, the hospital received reimbursement payments of approximately \$1,137,000.

13. Paycheck Protection Program (PPP) Note Payable:

In May 2020, the District was granted a loan from GN Bank, N.A. in the aggregate amount of \$2,896,900, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The PPP loan, which was in the form of a note dated May 4, 2020, matures on May 4, 2022, and bears interest at a rate of 1 percent per annum, payable monthly commencing on December 7, 2020. The note may be prepaid by the District at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group healthcare benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred after February 15, 2020. The District intends to use the entire loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. The District believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan.

The District applied for PPP loan forgiveness in December 2020 and forgiveness is pending.

14. CARES Act Provider Relief Fund:

In April 2020, the District received approximately \$4,465,000 of funding from the CARES Act Provider Relief Fund. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District has recorded these funds as unearned grant revenue until eligible expenses or lost revenues are recognized. During the year ended December 31, 2020, the District recognized approximately \$242,000 of grant revenue from these funds. The District had approximately \$4,223,000 of remaining funds as of December 31, 2020, to use for healthcare-related expenses or lost revenues that are attributable to coronavirus in the next fiscal year.

15. COVID-19 Pandemic:

The COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Beginning in March 2020, the District began experiencing significant declines in revenues due to the state of Colorado temporarily suspending all elective surgeries and other elective procedures. In addition, the District has experienced declines in volumes of outpatient and ancillary services such as radiology, laboratory, emergency department, and clinic visits.

Medicare sequestration has been suspended from May 1, 2020 through December 31, 2021, which will increase Medicare reimbursement by 2 percent.

**Prowers County Hospital District
doing business as Prowers Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019**

15. COVID-19 Pandemic (continued):

The District also received COVID-19-related grants from multiple sources totaling approximately \$502,000.

The District received CARES Act Provider Relief Funding, as discussed in Note 14, and received a PPP loan, as discussed in Note 13.

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

In addition to accepting funding from the CARES Act Provider Relief Fund, management restarted elective surgeries in May 2021 after the state of Colorado removed restrictions. The District could also utilize its unrestricted reserves to cover operating expenses until revenues recover. The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.

16. Subsequent Event:

In February 2021, the District was awarded a \$700,000 grant from the Colorado Department of Local Affairs. The funds are for installation of a new MRI.

SUPPLEMENTAL INFORMATION

Prowers County Hospital District
doing business as Prowers Medical Center
Schedule of Budget and Actual Revenues and Expenses
Year Ended December 31, 2020

	Original and Final Approved Budget	Actual	Favorable (Unfavorable) Variance
<i>Operating revenues</i>			
Net patient service revenue	\$ 34,003,000	\$ 32,880,095	\$ (1,122,905)
Other	158,000	143,119	(14,881)
Total operating revenues	34,161,000	33,023,214	(1,137,786)
<i>Operating expenses</i>			
Salaries, wages, and employee benefits	17,900,000	15,700,705	2,199,295
Professional fees and other purchased services	6,365,000	8,103,501	(1,738,501)
Supplies	5,288,000	4,878,197	409,803
Depreciation	1,616,000	1,667,935	(51,935)
Provider fees	881,000	899,351	(18,351)
Other	1,813,000	1,749,876	63,124
Total operating expenses	33,863,000	32,999,565	863,435
<i>Operating income</i>	298,000	23,649	(274,351)
<i>Nonoperating revenues</i>			
CARES Act Provider Relief Fund	-	241,905	241,905
COVID-19 grants	-	502,590	502,590
Property taxes	440,000	439,201	(799)
Investment income	217,000	89,601	(127,399)
Total nonoperating revenues	657,000	1,273,297	616,297
Change in net position	\$ 955,000	\$ 1,296,946	\$ 341,946

See accompanying independent auditors' report.



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' 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*

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

We have audited, in accordance with the 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 Prowers County Hospital District doing business as Prowers Medical Center (the District) as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated June 15, 2021.

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings and responses as item 2020-001, that we consider to be a significant deficiency.

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 its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 District's Response to Finding

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
June 15, 2021

**Prowers County Hospital District
 doing business as Prowers Medical Center
 Summary Schedule of Audit Findings and Responses
 Year Ended December 31, 2020**

2020-001 Auditor Detected Adjusting Journal Entries

<i>Condition</i>	Adjusting journal entries were proposed by the audit team to correct accrued vacation, accounts payable, construction in progress, employee benefits, and the stop loss receivable.
<i>Criteria</i>	<p>[] Compliance Finding [X] Significant Deficiency [] Material Weakness</p> <p>District board members, management, state and federal agencies, and the public rely on the information included in the financial statements and reports to make decisions. No significant adjusting journal entries should be detected by the auditors during the audit process.</p>
<i>Cause</i>	The District over-accrued for stop loss receivable and incorrectly accrued two fixed asset invoices. The District also under-accrued accrued vacation.
<i>Context</i>	This finding appears to be a systemic issue.
<i>Effect</i>	Financial reports may be inaccurate and could affect the decision making of District management, the Board, state and federal agencies, and the public.
<i>Recommendation</i>	<p>We recommend the District reconcile all accounts to supporting documentation during the year-end close.</p> <p>In preparing period-end accruals, we recommend the District review payments for cutoff.</p>
<i>Management's Response</i>	The District agrees with the auditor's recommendations and will ensure their implementation during fiscal year 2021.

**Prowers County Hospital District
doing business as Prowers Medical Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2020**

Year End Cut Off – Repeated as finding 2020-001