

**Upper San Juan Health Service District
doing business as
Pagosa Springs Medical Center**

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2020 and 2019



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Pagosa Springs, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Upper San Juan Health Service District doing business as Pagosa Springs 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 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 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the COVID-19 pandemic has created economic uncertainties which negatively impacted the healthcare industry. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 14. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 audits 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 Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 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
May 10, 2021

**Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Management's Discussion and Analysis
Years Ended December 31, 2020 and 2019**

Our discussion and analysis of Upper San Juan Health Service District doing business as Pagosa Springs Medical Center's (the District's) financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2020 and 2019. Please read it in conjunction with the District's financial statements, which begin on page 8.

Financial Highlights

- The District's net position increased \$2,123,358, or 19.4 percent, in 2020, and \$1,188,618, or 12.2 percent, in 2019.
- The District reported operating loss in 2020 of \$1,223,671 and operating income in 2019 of \$242,441. Income in 2020 decreased by \$1,466,112, or 604.7 percent, over the income reported in 2019. Operating income in 2019 increased by \$701,700, or 152.8 percent.
- Nonoperating revenues increased by \$1,422,405, or 417.7 percent, in 2020 compared to 2019. Nonoperating revenues decreased by \$17,713, or 5.5 percent, in 2019 compared to 2018.

Using this Annual Report

The District's financial statements consist of three statements—a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District that are designated for specific purposes by contributors, grantors, or enabling legislation.

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

Our analysis of the District's finances begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These statements report the District's net position and changes in it. The difference between assets and liabilities is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as the local economic factors to assess the overall health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. This statement provides meaningful information on how the District's cash was generated and how it was used.

The District's Net Position

The District's net position is the difference between its assets and liabilities reported in the Statements of Net Position on pages 8 and 9. The District's net position increased by \$2,123,358, or 19.4 percent, in 2020, and \$1,188,618, or 12.2 percent, in 2019.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Management's Discussion and Analysis (Continued)
Years Ended December 31, 2020 and 2019

Table 1. Net Position

	2020	2019	2018
<i>Assets</i>			
Current assets	\$ 24,763,261	\$ 13,073,610	\$ 12,780,705
Capital assets, net	22,271,693	21,645,485	23,141,917
Other noncurrent assets	878,731	1,572,068	1,059,386
Total assets	\$ 47,913,685	\$ 36,291,163	\$ 36,982,008
<i>Liabilities</i>			
Current liabilities	\$ 11,469,024	\$ 4,828,495	\$ 5,994,804
Capital lease obligations, less current maturities	61,030	270,221	461,822
Long-term debt, less current maturities	22,048,284	18,991,684	19,650,128
Total liabilities	33,578,338	24,090,400	26,106,754
<i>Deferred inflows of resources, property tax revenue</i>	1,277,441	1,266,215	1,129,324
<i>Net position</i>			
Net investment in capital assets	2,991,549	1,478,152	2,144,329
Restricted	878,731	1,572,068	1,059,386
Unrestricted	9,187,626	7,884,328	6,542,215
Total net position	13,057,906	10,934,548	9,745,930
Total liabilities and net position	\$ 47,913,685	\$ 36,291,163	\$ 36,982,008

The significant changes in assets and liabilities in 2020 were as follows:

- Total assets for the District were \$47,913,685 at the end of 2020, an increase of \$11,622,522 over the balance of \$36,291,163 at the end of 2019.

Current assets increased \$11,689,651 from \$13,073,610 in 2019 to \$24,763,261 in 2020 due to increased cash and cash equivalents primarily from significant Medicare Accelerated Payments and CARES Act Provider Relief receipts. Net patient receivables of \$3,420,336 in 2020 decreased \$1,004,726 from \$4,425,062 at the end of 2019.

- Total liabilities for the District were \$33,578,338 in 2020, an increase of \$9,487,938 from the balance of \$24,090,400 in 2019.

Current liabilities increased \$6,640,529 from \$4,828,495 at the end of 2019 to \$11,469,024 at the end of 2020 primarily due to significant balances related to Medicare Accelerated Payments payable and unearned CARES Act Provider Relief Fund.

Long-term debt and capital lease obligations increased \$2,847,409 from \$19,261,905 in 2019 to a balance of \$22,109,314 in 2020.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Management's Discussion and Analysis (Continued)
Years Ended December 31, 2020 and 2019

Operating Results and Changes in The District's Net Position

In 2020, the District's net position increased by \$2,123,358, or 19.4 percent, as shown in Table 2. The District's net position increased by \$1,188,618, or 12.2 percent, in 2019.

	2020	2019	2018
<i>Operating revenues</i>			
Net patient service revenue	\$ 32,142,883	\$ 32,584,951	\$ 31,220,161
340b contract pharmacy	1,818,620	1,842,227	1,873,822
Electronic health records incentive payment	-	143,657	428,940
Grants	181,058	-	-
Other revenue	185,820	227,806	194,897
Total operating revenues	34,328,381	34,798,641	33,717,820
<i>Operating expenses</i>			
Salaries and benefits	22,441,169	21,986,392	21,997,862
Supplies	5,795,916	4,915,129	4,128,476
Depreciation	1,793,074	1,877,244	2,343,494
Other	5,521,893	5,777,435	5,707,247
Total operating expenses	35,552,052	34,556,200	34,177,079
<i>Operating income (loss)</i>	(1,223,671)	242,441	(459,259)
<i>Nonoperating revenues (expenses)</i>			
Property taxes	1,405,122	1,262,092	1,251,238
Interest expense	(947,263)	(1,014,962)	(988,821)
CARES Act Provider Relief Fund	1,234,026	-	-
Interest income	71,033	93,383	60,383
Total nonoperating revenues, net	1,762,918	340,513	322,800
Excess of revenues (expenses) before capital grants and contributions	539,247	582,954	(136,459)
<i>Capital grants and contributions</i>	1,584,111	605,664	488,472
Change in net position	2,123,358	1,188,618	352,013
Net position, beginning of year	10,934,548	9,745,930	9,393,917
Net position, end of year	\$ 13,057,906	\$ 10,934,548	\$ 9,745,930

Operating Results

The first component of the overall change in the District's net position is operating income – the difference between the revenue and the expenses incurred to perform those services. Operating income decreased \$1,466,112 from 2019 to 2020.

The primary components of the change in operating income for 2020 compared to 2019 are:

- Net patient service revenue decreased \$442,068 due to a decrease in patient volumes during the COVID-19 Pandemic.
- Supplies expense increased \$880,787 due primarily to the expansion of services for oncology and COVID-related supplies needed.

**Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Management's Discussion and Analysis (Continued)
Years Ended December 31, 2020 and 2019**

Overall, net patient service revenue decreased between 2019 and 2020 by \$442,068. In 2019, overall net patient service revenue increased \$1,364,790 from 2018.

Nonoperating Revenues and Expenses

Nonoperating activity for 2020 and 2019 consists primarily of property taxes levied for repayment of the District's bonds, interest expense, and interest income. Net nonoperating revenues and expenses increased by \$1,422,405, or 417.7 percent, in 2020.

The District recognized Provider Relief Funds of \$1,234,026 during 2020.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating results and nonoperating revenues and expenses discussed earlier.

Capital Asset and Debt Administration

Capital Assets

Net capital assets increased in 2020 by \$626,208, or 2.9 percent, from 2019. This net increase includes purchases (including construction in progress) of \$2,419,282 and depreciation expense of \$1,793,074. Net capital assets decreased \$1,496,432, or 6.5 percent, from 2018 to 2019. This net decrease includes purchases (including construction in progress) of \$384,505 and depreciation expense of \$1,877,244.

At the end of 2020, the District had \$22,271,693 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements.

Debt

At December 31, 2020, the District had \$19,204,134 in long-term debt obligations, a decrease of \$884,869 from December 31, 2019. At December 31, 2019, the District had \$20,089,003 in long-term debt obligations.

The District's formal debt issuances must be approved by the District's Board of Directors. The amount of debt issued is subject to limitations that apply to the District. There have been no changes in the District's debt ratings in the past two years.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District's office, at Pagosa Springs Medical Center, 95 S Pagosa Blvd, Pagosa Springs, CO 81147.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Statements of Net Position
December 31, 2020 and 2019

ASSETS	2020	2019
<i>Current assets</i>		
Cash and cash equivalents	\$ 17,120,704	\$ 5,078,831
Receivables:		
Patient accounts	3,420,336	4,425,062
Property tax levy	1,277,441	1,266,215
Estimated third-party payor settlements	760,708	281,268
Other	294,660	305,726
Inventories	1,651,313	1,517,700
Prepaid expenses	238,099	198,808
Total current assets	24,763,261	13,073,610
<i>Noncurrent assets</i>		
Cash and cash equivalents, restricted for debt service	878,731	878,731
Cash and cash equivalents, restricted for capital purchases	-	693,337
Capital assets, net	22,271,693	21,645,485
Total noncurrent assets	23,150,424	23,217,553
Total assets	\$ 47,913,685	\$ 36,291,163

See accompanying notes to basic financial statements.

Upper San Juan Health Service District
doing business as Pagosa Springs 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	\$ 738,456	\$ 1,495,531
Refunds payable	501,098	497,072
Accrued compensation and related liabilities	1,234,855	1,930,464
Unearned CARES Act Provider Relief Fund	3,858,789	-
Medicare Accelerated Payments payable	4,224,952	-
Accrued interest payable	75,965	78,330
Current maturities of capital lease obligations	169,909	187,098
Current maturities of long-term debt	665,000	640,000
Total current liabilities	11,469,024	4,828,495
<i>Noncurrent liabilities</i>		
Paycheck Protection Program loan	3,740,044	-
Capital lease obligations, less current maturities	61,030	270,221
Long-term debt, less current maturities	18,308,240	18,991,684
Total noncurrent liabilities	22,109,314	19,261,905
Total liabilities	33,578,338	24,090,400
<i>Deferred inflows of resources , property tax revenue</i>	1,277,441	1,266,215
<i>Net position</i>		
Net investment in capital assets	2,991,549	1,478,152
Restricted	878,731	1,572,068
Unrestricted	9,187,626	7,884,328
Total net position	13,057,906	10,934,548
Total liabilities, deferred inflows of resources, and net position	\$ 47,913,685	\$ 36,291,163

See accompanying notes to basic financial statements.

Upper San Juan Health Service District
doing business as Pagosa Springs 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	\$ 32,142,883	\$ 32,584,951
340b contract pharmacy	1,818,620	1,842,227
Electronic health records incentive	-	143,657
Grants	181,058	-
Other	185,820	227,806
Total operating revenues	34,328,381	34,798,641
<i>Operating expenses</i>		
Salaries and wages	19,159,427	18,652,428
Employee benefits	3,281,742	3,333,964
Professional fees and other purchased services	2,142,812	2,414,581
Supplies	5,795,916	4,915,129
Utilities	361,181	470,670
Depreciation and amortization	1,793,074	1,877,244
Leases and rentals	438,284	519,307
Repairs and maintenance	549,092	538,506
Provider fees	800,963	716,909
Insurance	327,437	313,793
Other	902,124	803,669
Total operating expenses	35,552,052	34,556,200
<i>Operating income (loss)</i>	(1,223,671)	242,441
<i>Nonoperating revenues (expenses)</i>		
Property taxes	1,405,122	1,262,092
Interest expense	(947,263)	(1,014,962)
CARES Act Provider Relief Fund	1,234,026	-
Interest income	71,033	93,383
Total nonoperating revenues, net	1,762,918	340,513
Excess of revenues before capital grants and contributions	539,247	582,954
<i>Capital grants and contributions</i>	1,584,111	605,664
Change in net position	2,123,358	1,188,618
Net position, beginning of year	10,934,548	9,745,930
Net position, end of year	\$ 13,057,906	\$ 10,934,548

See accompanying notes to basic financial statements.

Upper San Juan Health Service District
doing business as Pagosa Springs 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	\$ 34,486,789	\$ 33,367,913
Electronic health records incentive	-	143,657
Other receipts	377,944	227,806
Payments to and on behalf of employees	(23,136,778)	(21,924,572)
Payments to suppliers and contractors	(12,243,762)	(10,417,689)
Net cash provided by (used in) operating activities	(515,807)	1,397,115
<i>Cash flows from noncapital financing activities</i>		
Receipt of CARES Act Provider Relief Funds	5,092,815	-
Receipt of Medicare Accelerated Payments	4,224,952	-
Proceeds from the Paycheck Protection Program	3,740,044	-
Property taxes	1,405,122	1,262,092
Net cash provided by noncapital financing activities	14,462,933	1,262,092
<i>Cash flows from capital and related financing activities</i>		
Principal payments on capital lease obligations	(226,380)	(202,200)
Principal payments on long-term debt	(640,000)	(610,000)
Purchase of capital assets	(2,419,282)	(378,419)
Interest paid on long-term debt and capital lease obligations	(968,072)	(1,035,410)
Capital grants and contributions	1,584,111	605,664
Net cash used in capital and related financing activities	(2,669,623)	(1,620,365)
<i>Cash flows from investing activities, investment income</i>	71,033	93,383
Net increase in cash and cash equivalents	11,348,536	1,132,225
Cash and cash equivalents, beginning of year	6,650,899	5,518,674
Cash and cash equivalents, end of year	\$ 17,999,435	\$ 6,650,899

See accompanying notes to basic financial statements.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Statements of Cash Flows (Continued)
Years Ended December 31, 2020 and 2019

	2020	2019
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 17,120,704	\$ 5,078,831
Cash and cash equivalents, restricted for debt service	878,731	878,731
Cash and cash equivalents, restricted for capital purchases	-	693,337
Total cash and cash equivalents	\$ 17,999,435	\$ 6,650,899
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</i>		
Operating income (loss)	\$ (1,223,671)	\$ 242,441
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	1,793,074	1,877,244
Provision for bad debts	1,730,053	3,470,960
(Increase) decrease in assets:		
Receivables:		
Patient accounts	(725,327)	(2,791,962)
Estimated third-party payor settlements	(479,440)	-
Other	11,066	24,005
Inventories	(133,613)	29,111
Prepaid expenses	(39,291)	12,683
Increase (decrease) in liabilities:		
Accounts payable	(757,075)	16,937
Refunds payable	4,026	216,144
Accrued compensation and related liabilities	(695,609)	61,820
Estimated third-party payor settlements	-	(1,762,268)
Net cash provided by (used in) operating activities	\$ (515,807)	\$ 1,397,115

See accompanying notes to basic financial statements.

**Upper San Juan Health Service District
doing business as Pagosa Springs 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

Upper San Juan Health Service District doing business as Pagosa Springs Medical Center (the District) was organized to operate, maintain, and provide health services to the citizens of Archuleta County and a small portion of Hinsdale and Mineral Counties in the state of Colorado. As organized, the District is exempt from paying federal income tax. The District is governed by a Board of Directors consisting of members that must be qualified electors of the District. Members are elected to staggered four-year terms of office.

The District operates a licensed 11-bed hospital, a rural health clinic, and an ambulance service in Pagosa Springs, Colorado. The services provided include medical-surgical, pediatrics, surgery, emergency room, oncology, pain management, clinic, and related ancillary services (laboratory, imaging, cardiology, physical therapy, respiratory therapy, etc.).

b. Summary of Significant Accounting Policies

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

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

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

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

Useful lives are estimated as follows:

Buildings and improvements	5 to 39 years
Equipment	2 to 20 years

Upper San Juan Health Service District
doing business as Pagosa Springs 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)

Accrued compensated absences – Employees earn paid time off on regular hours actually worked at varying rates depending on years of service. Employees must be full-time with at least one month of continuous employment in order to earn paid time off. Accumulated paid time off cannot exceed 298 hours. All paid time off is accrued and expensed when earned.

Bond premiums – Bond premiums are being amortized on a straight-line basis over the life of the bond issue.

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

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

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

Reclassifications – Certain items included in the accompanying 2019 financial statements have been reclassified to conform to the 2020 presentation, with no effect on the previously reported change in net position.

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The 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 – Subsequent events have been reviewed through May 10, 2021, the date on which the financial statements were available to be issued.

2. Bank Deposits and Investments:

Deposits:

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

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

Investments:

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

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

2. Bank Deposits and Investments (continued):

Investments (continued)

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

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

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

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

At December 31, 2020 and 2019, the District had invested \$1,602,444 and \$1,590,828, respectively in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. Colotrust operates similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services to Colotrust in connection with the direct investment and withdrawal functions of Colotrust. Substantially all securities owned by Colotrust are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian’s internal records identify the investments owned by Colotrust. Colotrust funds carry a Standard & Poor’s AAA rating. There is no custodial interest rate or foreign currency risk exposure. Colotrust operates like a 2a-7 external investment pool and investments in the pool are valued at \$1 net asset value (NAV) per share. The underlying investments held by Colotrust are valued at fair value.

The District’s remaining investments at December 31, 2020 and 2019, were in money market funds, with a carrying value of \$2,387,504 and \$1,909,873, respectively. Of the amounts, \$878,731 in both 2020 and 2019 are restricted by the bond agreement for debt reserve.

The District’s investments are recorded as cash equivalents.

Fair value measurements – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District’s money market funds are valued using quoted market prices (Level 1) as of December 31, 2020 and 2019.

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

The District's allowance for uncollectible accounts for self-pay patients has decreased significantly from the prior year due to a decrease in self-pay accounts receivable balances. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	2020	2019
Receivable from patients and their insurance carriers	\$ 3,519,195	\$ 4,879,242
Receivable from Medicare	1,197,613	1,430,071
Receivable from Medicaid	285,150	451,152
Total patient accounts receivable	5,001,958	6,760,465
Less allowance for uncollectible accounts	1,581,622	2,335,403
Patient accounts receivable, net	\$ 3,420,336	\$ 4,425,062

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

4. Capital Assets:

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	\$ 101,000	\$ -	\$ -	\$ -	\$ 101,000
Construction in progress	73,031	1,414,384	-	-	1,487,415
Total capital assets not being depreciated	174,031	1,414,384	-	-	1,588,415
<i>Capital assets being depreciated</i>					
Building and improvements	27,057,488	317,765	-	-	27,375,253
Equipment	10,395,757	687,133	-	-	11,082,890
Total capital assets being depreciated	37,453,245	1,004,898	-	-	38,458,143
<i>Less accumulated depreciation for</i>					
Building and improvements	(7,463,345)	(1,165,865)	-	-	(8,629,210)
Equipment	(8,518,446)	(627,209)	-	-	(9,145,655)
Total accumulated depreciation	(15,981,791)	(1,793,074)	-	-	(17,774,865)
Total capital assets being depreciated, net	21,471,454	(788,176)	-	-	20,683,278
Capital assets, net of accumulated depreciation	\$ 21,645,485	\$ 626,208	\$ -	\$ -	\$ 22,271,693

Construction in progress at December 31, 2020, consisted of costs for the upgrade of the hospital heating, ventilation, and air conditioning system. The project is scheduled to be completed in July 2021, with additional costs of approximately \$200,000.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

4. Capital Assets (continued):

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 101,000	\$ -	\$ -	\$ -	\$ 101,000
Construction in progress	38,505	34,526	-	-	73,031
Total capital assets not being depreciated	139,505	34,526	-	-	174,031
<i>Capital assets being depreciated</i>					
Building and improvements	27,019,152	38,336	-	-	27,057,488
Equipment	10,149,875	311,643	(65,761)	-	10,395,757
Total capital assets being depreciated	37,169,027	349,979	(65,761)	-	37,453,245
<i>Less accumulated depreciation for</i>					
Building and improvements	(6,283,884)	(1,179,461)	-	-	(7,463,345)
Equipment	(7,882,731)	(697,783)	62,068	-	(8,518,446)
Total accumulated depreciation	(14,166,615)	(1,877,244)	62,068	-	(15,981,791)
Total capital assets being depreciated, net	23,002,412	(1,527,265)	(3,693)	-	21,471,454
Capital assets, net of accumulated depreciation	\$ 23,141,917	\$ (1,492,739)	\$ (3,693)	\$ -	\$ 21,645,485

5. Employee Health Self-insurance:

The District established a self-insurance fund for employee medical care that is administered through Meritain Health. Specific and aggregate stop-loss coverage on the health plan is provided to limit the ultimate exposure of the District.

The District has recorded the estimated liability for self-insurance claims in the statements of net position, in accrued compensation and related liabilities. The income and expenses related to administration of self-insurance and the estimated provision for claims liabilities are recorded in the statements of revenues, expenses, and changes in net position, in employee benefits expense.

The District accrues an incurred but not yet reported liability for plan claims that have been incurred but have not yet been reported to the District. The District has also purchased a supplementary insurance policy to cover claims in excess of \$50,000.

	2020	2019
Claim liability, beginning of year	\$ 274,024	\$ 277,761
Current year claims and changes in estimates	1,653,521	1,782,014
Claim payments	(1,698,147)	(1,785,751)
Claim liability, end of year	\$ 229,398	\$ 274,024

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

6. Long-term Debt:

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

	Balance December 31, 2019	Additions	Reductions	Balance December 31, 2020	Amounts Due Within One Year
<i>Long-term debt</i>					
Limited Tax General Obligation Bonds, Series 2006 and Limited Tax General Obligation Bonds, Series 2007	\$ 9,025,000	\$ -	\$ (320,000)	\$ 8,705,000	\$ 335,000
Improvement and Refunding Revenue Bonds, Series 2016 A (Tax Exempt) and Refunding Revenue Bond Series 2016 B (Taxable)	10,240,000	-	(320,000)	9,920,000	330,000
2007 bond premium	232,442	-	(13,346)	219,096	-
2016 bond premium	134,242	-	(5,098)	129,144	-
Total long-term debt	19,631,684	-	(658,444)	18,973,240	665,000
<i>Capital lease obligations</i>					
Stryker equipment lease	145,810	-	(64,805)	81,005	64,804
Dell server lease	57,645	-	(57,645)	-	-
Wells Fargo equipment lease	251,471	-	(101,537)	149,934	105,105
Synoptek telephone lease	2,393	-	(2,393)	-	-
Total capital lease obligations	457,319	-	(226,380)	230,939	169,909
	\$ 20,089,003	\$ -	\$ (884,824)	\$ 19,204,179	\$ 834,909

	Balance December 31, 2018	Additions	Reductions	Balance December 31, 2019	Amounts Due Within One Year
<i>Long-term debt</i>					
Limited Tax General Obligation Bonds, Series 2006 and Limited Tax General Obligation Bonds, Series 2007	\$ 9,330,000	\$ -	\$ (305,000)	\$ 9,025,000	\$ 320,000
Improvement and Refunding Revenue Bonds, Series 2016 A (Tax Exempt) and Refunding Revenue Bond Series 2016 B (Taxable)	10,545,000	-	(305,000)	10,240,000	320,000
2007 bond premium	245,788	-	(13,346)	232,442	-
2016 bond premium	139,340	-	(5,098)	134,242	-
Total long-term debt	20,260,128	-	(628,444)	19,631,684	640,000
<i>Capital lease obligations</i>					
Stryker equipment lease	216,014	-	(70,204)	145,810	64,804
Dell server lease	76,681	-	(19,036)	57,645	18,317
Wells Fargo equipment lease	349,691	-	(98,220)	251,471	101,584
Synoptek telephone lease	14,740	2,393	(14,740)	2,393	2,393
Total capital lease obligations	657,126	2,393	(202,200)	457,319	187,098
	\$ 20,917,254	\$ 2,393	\$ (830,644)	\$ 20,089,003	\$ 827,098

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

6. Long-term Debt (continued):

The terms of the District's long-term debt follow:

Health Care Services Enterprise Improvement and Refunding Revenue Bonds, Series 2016A (Tax Exempt) and Refunding Revenue Bonds, Series 2016B (Taxable), in the original amounts of \$9,590,000 and \$1,545,000, respectively. The bonds are secured by net medical center revenue. The bonds mature annually at amounts ranging from \$330,000 to \$680,000 with semiannual interest payments at rates ranging from 2.75 percent to 6.125 percent, through June 1, 2046.

Limited Tax General Obligation Bonds, Series 2006, in the original amount of \$9,470,000. The bonds bear interest rates varying from 4 percent to 5 percent. An additional \$2,530,000 in bonds was issued in January 2007 for a total issue of \$12,000,000. The additional bonds bear interest at rates varying from 3.6 percent to 4.0 percent. The bonds mature annually at amounts ranging from \$335,000 to \$730,000, with semiannual interest payments through June 2037. The bonds are additionally secured by net medical center revenue.

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

Years Ending December 31,	Principal	Interest	Total
2021	\$ 665,000	\$ 905,397	\$ 1,570,397
2022	690,000	877,409	1,567,409
2023	595,000	851,641	1,446,641
2024	620,000	825,809	1,445,809
2025	645,000	798,253	1,443,253
2026-2030	3,710,000	3,523,889	7,233,889
2031-2035	4,660,000	2,566,100	7,226,100
2036-2040	3,525,000	1,463,500	4,988,500
2041-2045	2,835,000	663,484	3,498,484
2046	680,000	20,825	700,825
	\$ 18,625,000	\$ 12,496,307	\$ 31,121,307

Upper San Juan Health Service District
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

6. Long-term Debt (continued):

The terms of the District's capital lease obligations follows:

- Synoptek telephone lease, paid in full during 2020.
- Wells Fargo equipment lease, due in monthly installments of \$9,402, including interest at 3.37 percent, through May 2022; collateralized by equipment with a cost of \$455,148 and accumulated depreciation of \$248,649 and \$176,471 as of December 31, 2020 and 2019, respectively.
- Dell server lease, paid in full during 2020.
- Stryker equipment lease, due in monthly installments of \$6,076, including interest at 2.32 percent, through April 2022; collateralized by equipment with a cost of \$290,974 and accumulated depreciation of \$236,416 and \$163,673 as of December 31, 2020 and 2019, respectively.

Scheduled principal and interest payments on capital lease obligations are as follows:

Years Ending December 31,	Principal	Interest	Total
2021	\$ 169,909	\$ 11,551	\$ 181,460
2022	61,030	3,082	64,112
	\$ 230,939	\$ 14,633	\$ 245,572

7. Paycheck Protection Program Note Payable:

In April 2020, the District was granted a loan from First Southwest Bank in the aggregate amount of \$3,740,044, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (CARES Act) Provider Relief Fund, which was enacted March 27, 2020.

The PPP loan, which was in the form of a Note dated April 20, 2020, matures on April 1, 2025, and bears interest at a rate of 1 percent per annum. 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 health care 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 August 2020. The anticipated loan forgiveness will be recorded as a Gain on Forgiveness of Paycheck Protection Program loan in the statements of revenues, expenses, and changes in net position for the year ending December 31, 2021.

Upper San Juan Health Service District
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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

8. Net Patient Service Revenue:

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

	2020	2019
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 14,194,536	\$ 14,592,624
Medicaid	3,331,856	4,030,720
Other third-party payors	11,676,098	12,287,759
Patients	2,433,032	2,809,043
Provider fee	2,520,101	3,081,149
	34,155,623	36,801,295
Less:		
Charity care	282,687	745,384
Provision for bad debts	1,730,053	3,470,960
Net patient service revenue	\$ 32,142,883	\$ 32,584,951

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

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

**Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019**

8. Net Patient Service Revenue (continued):

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$350,000 and decreased by approximately \$55,000 in the years ended December 31, 2020 and 2019, respectively, due to differences between original estimates and final settlements.

During the year ended December 31, 2017, the District received notice that their Medicaid rural health clinic rates were being updated to the higher of the prospectively determined rate or the cost per encounter as determined by the District's annual Medicare cost reports. Rate reconciliations are being conducted by the Colorado Department of Health Care Policy and Financing. As a result, Medicaid claims from 2016-2018 are being reprocessed, resulting in a payback of approximately \$633,000 that was accrued at December 31, 2018. Net patient service revenue decreased by approximately \$31,000 in the year ended December 31, 2019, due to differences in the original estimates and final settlements. For the years ended December 31, 2020 and 2019, the District has estimated a receivable of approximately \$280,000 and \$243,000, respectively, for the rate reconciliation.

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

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2020 and 2019, were approximately \$163,000 and \$421,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2020 and 2019.

9. CARES Act Provider Relief Fund:

In April 2020, the District received \$5,092,815 of funding from the CARES Act. 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 \$1,234,026 of grant revenue from these funds. The District had \$3,858,789 remaining as of December 31, 2020, to use for healthcare-related expenses or lost revenues that are attributable to coronavirus in the next fiscal year.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

10. Property Taxes:

The Archuleta, Hinsdale, and Mineral County Treasurers act as agents to assess and collect property taxes levied in the county for all taxing authorities. Property taxes are levied and assessed in December on property values assessed as of January 1 of the prior year.

Taxes are due in two equal amounts by February 28 and June 15, or all may be paid by April 30. The assessed property is subject to lien on the levy date. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the District. No allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates. A deferred inflow of resources and a receivable were recorded at December 31, 2020 and 2019, for taxes levied for 2021 and 2020, respectively.

For 2020, the District's regular tax levy was \$3.884 per \$1,000 on a total combined assessed valuation of \$328,483,239, for a total regular combined levy of \$1,277,441. For 2019, the District's regular tax levy was \$3.884 per \$1,000 on a total assessed valuation of \$325,481,370, for a total regular levy of \$1,266,215.

11. Defined Contribution Plans:

The District provides retirement benefits for all its employees through a defined contribution plan administered by the Colorado County Officials and Employees Retirement Association (CCOERA) (the Plan). In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Under the defined contribution retirement plan, the District is required to contribute 6 percent of employee compensation to the Plan.

Employees are required to participate in the Plan upon the first day of the payroll period after the employee's date of hire. The Plan provides retirement benefits based upon the employee's vested account. A participant becomes 100 percent vested upon completion of five years of covered service. Contributions by employees are immediately vested. Amounts forfeited by employees who leave employment before they become fully vested are applied to reduce future employer contributions. Under the Plan, employees direct the investment of both the employee and employer contributions among several investment options available through an outside plan administrator. Employer contributions to the Plan totaled approximately \$1,186,000 and \$1,115,000 for the years ended December 31, 2020 and 2019, respectively. Employee contributions to the Plan totaled approximately \$1,186,000 and \$1,115,000 for the years ended December 31, 2020 and 2019, respectively.

District employees may defer a portion of their compensation under a District sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this plan, participants are not taxed on the deferred portion of their compensation until it is distributed to them; distributions may be made only at termination, retirement, or death. The laws governing deferred compensation plan assets require plan assets to be held by a trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property and are not subject to District control, they have been excluded from these financial statements.

The District made all required funding payments during the year.

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

12. Risk Management and Contingencies:

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

Medical malpractice claims – The District has professional liability insurance with COPIC Insurance Company (COPIC). The policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carrier in the current year are covered by the current policies, as well as past incidents that are reported during the current term. The malpractice insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has a deductible of \$50,000 per claim.

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

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

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

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Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2020 and 2019

13. Concentration Risks:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	2020	2019
Medicare	29 %	24 %
Medicaid	12	14
Other third-party payors	36	38
Patients	23	24
	100 %	100 %

Physicians – The District is dependent on local physicians and mid-level providers 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 changes in their utilization patterns may have an adverse effect on District operations.

14. 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.

The District received government grants as described in Note 9 above, as well as obtaining the PPP loan described in Note 7 above, as part of the federal government’s response to the pandemic. Medicare sequestration has been suspended from May 1, 2020 through December 31, 2021, which will increase Medicare reimbursement by 2 percent.

In addition to accepting funding from the CARES Act and other funding sources noted above, the District resumed the services that had been temporarily suspended. However, the pandemic continues to affect the District’s operations. The ultimate COVID-19 pandemic effect on the District’s financial position is unknown at this time.

15. Purchase Commitment:

The District entered into a lease agreement in September 2020 for MRI equipment and an MRI modular building for a total cost of approximately \$1,700,000. The equipment and building are expected to be placed into service in May 2021.

SUPPLEMENTAL INFORMATION

Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Schedule of Budget and Actual Revenues and Expenses
Year Ended December 31, 2020

	Original and Final Budget	Actual	Variance Favorable (Unfavorable)
<i>Operating revenues</i>			
Net patient service revenue and 340b contract pharmacy	\$ 29,231,216	\$ 31,441,402	\$ 2,210,186
Provider fees	2,900,000	2,520,101	(379,899)
Grants	1,036,000	181,058	(854,942)
Other	2,663,500	185,820	(2,477,680)
Total operating revenues	35,830,716	34,328,381	(1,502,335)
<i>Operating expenses</i>			
Salaries and wages	19,283,002	19,159,427	123,575
Employee benefits	3,832,085	3,281,742	550,343
Professional fees and other purchased services	2,588,569	2,142,812	445,757
Supplies	4,779,415	5,795,916	(1,016,501)
Utilities	556,733	361,181	195,552
Depreciation and amortization	1,844,097	1,793,074	51,023
Leases and rentals	459,396	438,284	21,112
Repairs and maintenance	575,315	549,092	26,223
Insurance	304,700	327,437	(22,737)
Provider fees and other	1,458,962	1,703,087	(244,125)
Total operating expenses	35,682,274	35,552,052	130,222
<i>Operating income (loss)</i>	148,442	(1,223,671)	(1,372,113)
<i>Nonoperating revenues (expenses)</i>			
Property taxes	1,200,000	1,405,122	205,122
Interest	(1,102,802)	(947,263)	155,539
Provider Relief Fund	-	1,234,026	1,234,026
Interest income	-	71,033	71,033
Total nonoperating revenues, net	97,198	1,762,918	1,665,720
Excess of revenues before capital grants and contributions	245,640	539,247	293,607
<i>Capital grants and contributions</i>	200,000	1,584,111	1,384,111
Change in net position	\$ 445,640	\$ 2,123,358	\$ 1,677,718

See accompanying independent auditors' report.



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
Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Pagosa Springs, 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 Upper San Juan Health Service District doing business as Pagosa Springs 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 May 10, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

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*.

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

May 10, 2021

**Upper San Juan Health Service District
doing business as Pagosa Springs Medical Center
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2020**

The audit for the year ended December 31, 2019, reported no audit findings, nor were there any unresolved prior year findings from years ended December 31, 2018, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2020.