

**SOUTH ROUTT MEDICAL CENTER  
HEALTH SERVICES DISTRICT**

Financial Statements

December 31, 2021

**SOUTH ROUTT MEDICAL CENTER  
HEALTH SERVICES DISTRICT**

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## Independent Auditor's Report

Board of Directors  
South Routt Medical Center Health Services District  
Routt County, Colorado

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of the South Routt Medical Center Health Services District (the District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the South Routt Medical Center Health Services District as of December 31, 2021, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles (GAAP).

#### ***Basis for Opinion***

We conducted our audit in accordance with U.S. generally accepted auditing standards (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Report on Summarized Comparative Financial Information**

We have previously audited the District's December 31, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 15, 2021. In our opinion, the summarized comparative financial information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

#### ***Required Supplementary Information***

Management has omitted Management's Discussion and Analysis that GAAP requires 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.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedule of revenues, expenditures and changes in fund balance – budget and actual on page 12 is presented for purposes of additional analysis and are 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. The 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 GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Cutler + Company, P.C.*

Steamboat Springs, Colorado  
May 19, 2022

**SOUTH ROUTT MEDICAL CENTER HEALTH SERVICES DISTRICT**  
**Statement of Net Position**  
**December 31, 2021**  
(with summarized financial information as of December 31, 2020)

	2021	2020
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 234,559	\$ 156,855
Accounts receivable, net of allowance	29,801	12,863
Due from other government	1,729	3,249
Property taxes receivable	394,843	363,113
Total current assets	660,932	536,080
Noncurrent assets:		
Capital assets, net of accumulated depreciation	865,757	893,939
Total noncurrent assets	865,757	893,939
Total assets	1,526,689	1,430,019
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable and accrued expenses	23,504	21,228
Current portion of lease purchase obligation	30,049	28,830
Total current liabilities	53,553	50,058
Noncurrent liabilities:		
Lease purchase obligation, net of current portion	232,387	262,344
Total liabilities	285,940	312,402
<b>Deferred Inflows of Resources:</b>		
Deferred property taxes	394,843	363,113
Deferred inflows of resources	394,843	363,113
<b>Net Position:</b>		
Net investment in capital assets	603,321	602,765
Restricted for:		
Emergencies	27,963	21,649
Unrestricted	214,622	130,090
Total net position	\$ 845,906	\$ 754,504

See accompanying notes to financial statements.

**SOUTH ROUNTT MEDICAL CENTER HEALTH SERVICES DISTRICT**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended December 31, 2021**  
(with summarized financial information for the year ended December 31, 2020)

	2021	2020
<b>Operating Revenues:</b>		
Patient services:		
Medical	\$ 781,247	\$ 476,463
Less: uncollectible accounts	(273,055)	(177,026)
Patient services, net of uncollectible accounts	508,192	299,437
Operating grants	84,988	90,379
Other income	32,825	31,898
Total operating revenues	626,005	421,714
<b>Operating Expenses:</b>		
Wages, contract labor and benefits	634,868	468,645
Professional fees	43,977	31,994
Laboratory	13,771	13,059
Medical supplies and equipment	86,032	75,476
Office	36,095	29,060
Insurance	23,542	11,155
Cleaning, repairs and maintenance	8,363	11,105
Utilities	17,050	15,865
Depreciation	33,493	30,145
Other	5,941	4,967
Total operating expenses	903,132	691,471
Income (loss) from operations	(277,127)	(269,757)
<b>Nonoperating Revenues (Expenses):</b>		
Taxes:		
Property	364,840	364,984
Specific ownership	26,163	23,541
Treasurer's fees	(10,932)	(10,997)
Capital grants	-	27,000
Interest income	82	1,765
Interest expense	(11,624)	(12,802)
Net nonoperating revenues	368,529	393,491
Change in net position	91,402	123,734
Net position, beginning of year	754,504	630,770
Net position, end of year	\$ 845,906	\$ 754,504

See accompanying notes to financial statements.

**SOUTH ROUTT MEDICAL CENTER HEALTH SERVICES DISTRICT**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2021**  
(with summarized financial information for the year ended December 31, 2020)

	2021	2020
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers	\$ 491,254	\$ 314,579
Cash received from other sources	117,813	122,277
Cash payments to suppliers of goods or services	(260,819)	(184,581)
Cash payments to employees and contract labor	(606,544)	(466,210)
Net cash provided (used) by operating activities	(258,296)	(213,935)
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Taxes received, net of collection fees	381,591	376,350
Net cash provided by non-capital financing activities	381,591	376,350
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Principal payments on long-term debt	(28,738)	(27,559)
Interest payments on long-term debt	(11,624)	(12,802)
Acquisition of capital assets	(5,311)	(45,431)
Proceeds from capital grants	-	27,000
Net cash provided (used) by capital and related financing activities	(45,673)	(58,792)
<b>Cash Flows From Investing Activities:</b>		
Interest received	82	1,765
Net cash provided by investing activities	82	1,765
Net change in cash and cash equivalents	77,704	105,388
Cash and cash equivalents, beginning of year	156,855	51,467
Cash and cash equivalents, end of year	\$ 234,559	\$ 156,855
<b>Reconciliation of Income (Loss) From Operations to Net Cash Provided by Activities:</b>		
Income (loss) from operations	\$ (277,127)	\$ (269,757)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	33,493	30,145
(Increase) decrease in:		
Accounts receivable, net	(16,938)	15,142
(Decrease) increase in:		
Accounts payable and accrued expenses	2,276	10,535
Net cash provided (used) by operating activities	\$ (258,296)	\$ (213,935)

See accompanying notes to financial statements.

**SOUTH ROUTT MEDICAL CENTER HEALTH SERVICES DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2021**  
(with summarized financial information as of and for the year ended December 31, 2020)

**Note 1: Summary of Significant Accounting Policies**

The South Routt Medical Center Health Services District (the District) was established in May 2006 in Routt County, Colorado as a local government entity under Colorado Revised Statutes (CRS) to provide medical services including general operations and capital improvements in southern Routt County, Colorado. The District operates a medical care facility located in the Town of Oak Creek, Colorado.

The District's financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for the establishment of GAAP in governmental entities. The following summary of the more significant accounting policies of the District is presented to assist the reader in interpreting these financial statements and should be viewed as an integral part of this report.

*Reporting Entity*

The reporting entity consists of (a) the primary government, i.e., the District, and (b) organizations for which the District is financially accountable. The District does not have any component units for which it is financially accountable.

*Measurement Focus and Basis of Accounting*

The District operates as an enterprise and the accompanying proprietary fund financial statements use a flow of economic resources measurement focus to determine net income and financial position. The accounting principles used are similar to those applicable to businesses in the private sector and, thus, this fund is maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred.

*Assets, Liabilities, Deferred Inflows of Resources, and Net Position*

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand and demand deposits.

Accounts Receivable, Net

The District's accounts receivable consists of charges for patient services provided. The District estimates an allowance for uncollectible accounts based on a review of current trends in collection percentage and insurance coverage of the patients served.

As of December 31, 2021 and 2020, the District's net accounts receivable was as follows:

	2021	2020
Accounts receivable	\$ 62,801	\$ 50,863
Allowance for uncollectible accounts	(33,000)	(38,000)
	\$ 29,801	\$ 12,863

**SOUTH ROUTH MEDICAL CENTER HEALTH SERVICES DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2021**  
(with summarized financial information as of and for the year ended December 31, 2020)

**Note 1: Summary of Significant Accounting Policies (continued)**

*Assets, Liabilities, Deferred Inflows of Resources, and Net Position (continued)*

Capital Assets

Capital assets include land, building and improvements, and equipment. Capital assets are defined by the District as assets with an initial cost of \$3,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Building	40
Building improvements	20
Equipment	5-10

Deferred Inflows of Resources

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources consist of unavailable revenues from property taxes to be collected in the subsequent year.

*Operating and Nonoperating Revenues and Expenses*

The proprietary fund financial statements distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from providing services associated with the principal activities of the District. Operating expenses include the cost of ongoing operations, related administrative expenses, and depreciation expense. Nonoperating revenues and expenses are all those that do not meet the criteria described previously.

*Property Taxes*

Property taxes are levied on December 15 of each year and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The Routh County Treasurer collects property taxes and remits collections to the District on a monthly basis.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the financial statement date and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Comparative Financial Statements*

The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's audited financial statements for the year ended December 31, 2020, from which the summarized information was derived.

**SOUTH ROUTT MEDICAL CENTER HEALTH SERVICES DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2021**  
**(with summarized financial information as of and for the year ended December 31, 2020)**

**Note 2: Stewardship, Compliance and Accountability**

*Budgetary Information*

Budgets are adopted on a non-GAAP basis wherein depreciation is not budgeted; capital expenditures and principal payments on long-term debt are budgeted and recorded as expenditures.

The District conforms to the following procedures, in compliance with CRS, Title 29, Article 1, in establishing the budgetary data reflected in the financial statements:

- Prior to October 15, the District's Treasurer submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The budget includes proposed expenditures and the means of financing them.
- Public notice is offered by the Board of Directors to obtain taxpayer comments.
- Prior to December 31, the budget is adopted by formal resolution.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures must be approved by the Board of Directors.
- All appropriations lapse at the end of each fiscal year.

The District did not adopt any supplemental budget appropriations for the year ended December 31, 2021.

*Compliance*

The District's expenditures exceeded appropriations by \$234,668 for the year ended December 31, 2021. The excess expenditures were primarily for personnel costs and medical supplies that were funded from patient services and grants.

*TABOR Amendment*

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR contains tax spending, revenue and debt limitations which apply to the State of Colorado and all local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenue gain to any local government.

Future spending and revenue limits are determined based on the prior year's fiscal year spending adjusted for allowable increases based upon inflation and local growth. Fiscal year spending is generally defined as expenditures plus reserve increases with certain exceptions. Revenue in excess of the fiscal year spending limit must be refunded unless the voters approve retention of such revenue.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple-fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish emergency reserves. These reserves must be at least 3% of fiscal year spending (excluding bonded debt service). Local governments are not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls, or salary or benefit increases. The District has reserved \$27,963 of the December 31, 2021 fund balance for this purpose.

The District's voters passed a ballot issue in May 2006 upon formation of the District, permitting the District to collect, retain and expend all revenues collected in 2007 and each year thereafter.

The District's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions may require judicial interpretation.

**SOUTH ROUTH MEDICAL CENTER HEALTH SERVICES DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2021**  
(with summarized financial information as of and for the year ended December 31, 2020)

**Note 3: Detailed Notes on the Fund**

*Deposits*

The carrying amount of the District's deposits as of December 31, 2021 and 2020 was \$234,559 and \$156,855, respectively, and bank balances were \$235,240 and \$158,055, respectively. All of the bank balances as of December 31, 2021 and 2020 were covered by federal deposit insurance.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The collateral pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must equal or exceed 102% of the aggregate uninsured deposits.

*Capital Assets*

Capital asset activity for the year ended December 31, 2021 is summarized below:

	Beginning Balance	Additions	Retirements	Ending Balance
<b>Business-type activities:</b>				
Land	\$ 54,000	\$ -	\$ -	\$ 54,000
Other capital assets:				
Building	939,599	-	-	939,599
Building improvements	83,923	-	-	83,923
Equipment	61,671	5,311	(4,016)	62,966
Total other capital assets at cost	<u>1,085,193</u>	<u>5,311</u>	<u>(4,016)</u>	<u>1,086,488</u>
Less accumulated depreciation for:				
Building	(177,229)	(23,490)	-	(200,719)
Building improvements	(46,799)	(4,196)	-	(50,995)
Equipment	(21,226)	(5,807)	4,016	(23,017)
Total accumulated depreciation	<u>(245,254)</u>	<u>(33,493)</u>	<u>4,016</u>	<u>(274,731)</u>
Other capital assets, net	<u>839,939</u>	<u>(28,182)</u>	<u>-</u>	<u>811,757</u>
Business-type activities capital assets, net	<u>\$ 893,939</u>	<u>\$ (28,182)</u>	<u>\$ -</u>	<u>\$ 865,757</u>

**SOUTH ROUNTT MEDICAL CENTER HEALTH SERVICES DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2021**  
(with summarized financial information as of and for the year ended December 31, 2020)

**Note 3: Detailed Notes on the Fund (continued)**

*Long-Term Liabilities*

The District had the following long-term debt as of December 31, 2021:

First National Bank of the Rockies (FNBR) Lease Purchase Agreement

The District entered into a \$450,000 lease purchase agreement with FNBR dated July 1, 2014 whereby the District conveyed its ownership of its medical facility and improvements to FNBR and agreed to lease the property from FNBR subject to annual appropriation of rental amount by the District. Proceeds of the lease were used as follows: \$200,872 to pay the outstanding principal and interest of an existing line of credit agreement, \$9,421 for lease issuance costs, and the remaining \$239,707 to finance capital project costs. The lease requires monthly payments of \$3,363 including interest at 4.15% beginning August 1, 2014 through maturity on June 1, 2029.

Long-term liability activity for the year ended December 31, 2021 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Lease purchase obligation	\$ 291,174	\$ -	\$ (28,738)	\$ 262,436	\$ 30,049
	<u>\$ 291,174</u>	<u>\$ -</u>	<u>\$ (28,738)</u>	<u>\$ 262,436</u>	<u>\$ 30,049</u>

Interest expense on the lease purchase obligation during the year ended December 31, 2021 was \$11,624.

Debt service requirements of the lease purchase obligation as of December 31, 2021, assuming future annual appropriation of lease purchase payments, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 30,049	\$ 10,313	\$ 40,362
2023	31,320	9,042	40,362
2024	32,622	7,740	40,362
2025	34,025	6,337	40,362
2026	35,464	4,898	40,362
2027-209	<u>98,956</u>	<u>5,311</u>	<u>104,267</u>
Total	<u>\$ 262,436</u>	<u>\$ 43,641</u>	<u>\$ 306,077</u>

**SOUTH ROUTT MEDICAL CENTER HEALTH SERVICES DISTRICT**  
**Notes to Financial Statements**  
**December 31, 2021**  
**(with summarized financial information as of and for the year ended December 31, 2020)**

**Note 4: Other Information**

*Risk Management*

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District maintains commercial insurance for these risks by participation in an insurance pool.

The District is a member in the Colorado Special Districts Property and Liability Pool (the Pool). The Pool creates an opportunity for members to control their own insurance costs through the joint pooling of resources, making it possible to self-insure property, liability and workers' compensation insurance. The Pool is member-owned, and all surplus revenues support the stabilization of rates, coverage enhancements, innovation, and technology to bring the most value to its members. The Pool provides property, liability, workers' compensation and associated coverage, and claims and risk management services to its members. The District has not had losses of a material amount in any of the preceding three years.

The Pool has contracted with a third party to operate, administer and manage the Pool. In the event aggregated losses incurred by the Pool exceeds amounts recoverable from the reinsurance contracts and capital and surplus accumulated by the Pool, the Pool may require additional contributions from its members.

*Contingency*

In 2013, the District entered into a grant agreement with the State of Colorado (State) to construct a new structure over the existing medical facility for the purpose of preserving the building and to provide a structural framework for current and future building expansion. Terms of the grant agreement include the requirement for the expanded facility to operate as a medical center for a period of ten years after completion. If the District changes the use of the property to a use that the State determines does not qualify in meeting the original intent of the project, the District must reimburse the State for the current fair market value of the property, less any portion of the value attributable to expenditures of non- Energy Impact funds for acquisition of and improvements to the property. This use restriction on the property expires after ten years from completion of the project.

*Subsequent Events*

The District has evaluated subsequent events through May 19, 2022, the date these financial statements were available to be issued.

**SOUTH ROUTH MEDICAL CENTER HEALTH SERVICES DISTRICT**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended December 31, 2021**

	Original and Final Budget	Actual	Variance
<b>Revenues:</b>			
Patient services:			
Medical	\$ 489,589	\$ 781,247	\$ 291,658
Less: uncollectible accounts	(150,301)	(273,055)	(122,754)
Taxes:			
Property	363,113	364,840	1,727
Specific ownership	21,074	26,163	5,089
Rent	17,458	27,310	9,852
Grants	-	84,988	84,988
Interest	734	82	(652)
Other	12,132	5,515	(6,617)
<b>Total revenues</b>	<b>753,799</b>	<b>1,017,090</b>	<b>263,291</b>
<b>Expenditures:</b>			
Wages, contract labor and benefits	472,378	634,868	(162,490)
Professional fees	26,773	43,977	(17,204)
Laboratory	13,419	13,771	(352)
Medical supplies and equipment	47,772	86,032	(38,260)
Office	40,594	36,095	4,499
Insurance	10,967	23,542	(12,575)
Cleaning, repairs and maintenance	11,856	8,363	3,493
Utilities	16,322	17,050	(728)
Treasurer's fees	-	10,932	(10,932)
Other	13,267	5,941	7,326
Capital	-	5,311	(5,311)
Debt service:			
Principal	25,442	28,738	(3,296)
Interest	12,786	11,624	1,162
<b>Total expenditures</b>	<b>691,576</b>	<b>926,244</b>	<b>(234,668)</b>
Change in fund balance - non-GAAP basis	62,223	90,846	<u>\$ 28,623</u>
Adjustments to GAAP basis:			
Loan principal payments		28,738	
Depreciation		(33,493)	
Capitalized expenditures		5,311	
Change in fund balance - GAAP basis		91,402	
Fund balance, beginning of year	754,504	754,504	
Fund balance, end of year	<u>\$ 816,727</u>	<u>\$ 845,906</u>	



May 19, 2022

Board of Directors  
South Routt Medical Center Health Services District  
PO Box 8  
Oak Creek, CO 80467

We have audited the financial statements of the South Routt Medical Center Health Services District (the District) for the year ended December 31, 2021, and have issued our report thereon dated May 19, 2022. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility as described by professional standards is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles (GAAP). Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing as communicated to management in the planning phase of the audit.

#### Significant Audit Findings

##### *Key Audit Matters*

U.S. generally accepted auditing standards (GAAS) define key audit matters as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Although certain areas of the District's financial statements carry higher risk of material misstatement than others, we do not believe that they required significant auditor attention as they did not involve complexity or significant management judgment in the financial statements. Therefore, we have determined that there are no key audit matters to communicate in the independent auditor's report.

##### *Qualitative Aspects of Significant Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies has not changed during the year ended December 31, 2021. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the allowance for uncollectible accounts receivable from patient services provided is based upon current collection rate trends that the District has been experiencing and is highly dependent upon the patients' insurance coverage or lack thereof.
- Management's estimate of depreciation of its capital assets is calculated using the straight-line method in accordance w/GAAP and based upon estimated useful lives that are reasonable and consistent with prior years.

Management's process for determining the above estimates is based on firm concepts and reasonable assumptions of future events. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are of particular importance because of their significance to the financial statement users. The most important disclosures affecting the financial statements were:

- The disclosure in Note 1 of the District's allowance for uncollectible patient accounts receivable is significant to users of the financial statements as it discloses the District's estimate of charges outstanding from patients that is not reasonably expected to be collected in the future.
- The disclosure in Note 2 of the District's expenditures in excess of appropriations is important to users of the financial statements as it describes the purpose of the excess expenditures and the source of funding used.
- The disclosure in Note 3 of the lease purchase agreement is important to users of the financial statements as it describes the terms of the agreement and future debt service requirements of the District under the assumption that the lease purchase expenditures are appropriated annually by the board of directors.
- The disclosure in Note 4 of the District's requirement to operate its facility as a medical center for at least ten years upon completion of the renovation/expansion project is important to users of the financial statements as it discloses the potential financial impact to the District should it not comply with this requirement of the grant agreement with the State of Colorado.

#### *Significant Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The most significant corrected misstatements identified during the audit were as follows:

- Adjustment to correct the beginning net position to the ending net position from the December 31, 2020 audited financial statements.
- Adjustment to record the property tax and specific ownership tax revenues to actual for the year ended December, 31, 2020.
- Adjustment to the recorded patient service revenues and uncollectible amounts based upon Athena reports for the year ended December 31, 2021.
- Adjustment to the recorded allowance for uncollectible patient accounts receivable as of December 31, 2021 based upon the trend in collection percentages.
- Adjustment to reduce accounts receivable for long outstanding self-pay balances from prior years as of December 31, 2021.
- Adjustment to record the US SBA Payroll Protection Program funds as revenue in 2021 when the conditions for loan forgiveness were met.
- Adjustment to accrue expenses payable at December 31, 2021 for expenses incurred in 2021 but not paid for until 2022.
- Adjustment to capitalize equipment purchased and equipment disposed of during the year ended December 31, 2021.
- Adjustment to record depreciation expense on the District's capital assets.

In addition, none of the misstatements detected as a result of audit procedures and uncorrected by the District were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management included in the management representation letter dated May 19, 2022.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the South Routt Medical Center Health Services District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Cutler + Company, P.C.*