

SOUTHEAST COLORADO HOSPITAL DISTRICT
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020

**SOUTHEAST COLORADO HOSPITAL DISTRICT
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Southeast Colorado Hospital District
Springfield, Colorado

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Southeast Colorado Hospital District which comprise the balance sheet as of December 31, 2021, and the related statements of revenues, expenses, changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Colorado Hospital District as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southeast Colorado Hospital District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 accounting principles generally accepted in the United States of America, 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 Southeast Colorado Hospital District's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' 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 auditors' 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 Southeast Colorado Hospital 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 Southeast Colorado Hospital 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2022, on our consideration of Southeast Colorado Hospital 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 Southeast Colorado Hospital 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 Southeast Colorado Hospital District's internal control over financial reporting and compliance.

Other Matters

Required Supplementary Information

Accounting principals generally accepted in the United States of America require that the management's discussion and analysis, included on pages 4 through 7, be presented supplement to the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Government 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 preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Prior Auditor Report

The December 31, 2020, financial statements of Southeast Colorado Hospital District were audited by other auditors whose report dated July 20, 2021, expressed an unmodified opinion on those statements.



CliftonLarsonAllen LLP

Dallas, Texas
June 23, 2022

**SOUTHEAST COLORADO HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019**

Introduction

Southeast Colorado Hospital District (the District) offers readers of our financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2021. We encourage readers to consider the information presented here in conjunction with the District's financial statements, including the notes thereto.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements. The financial statements are composed of the balance sheets, statement of revenues, expenses, and changes in net position, and the statement of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the District's finances.

Required Financial Statements

The District's financial statements report information of the District using accounting methods similar to those used by private sector healthcare organizations. These statements offer short and long-term information about its activities. The balance sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District's creditors (liabilities). The statement of net position also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement can be used to determine whether the District has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

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. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights

Total assets decreased by \$312,251 to \$19,896,002 in 2021. Net property and equipment increased by \$1,850,296 in 2021. Total liabilities decreased by \$3,803,434 to \$3,883,917 in 2021. The total margin for fiscal year 2021 was 12.7% and was 5.2% for fiscal year 2020. The operating margin for fiscal year 2021 was a negative 12.7% and was a negative 8.7% for fiscal year 2020.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019**

Financial Analysis of the Organization

The balance sheet and the statement of revenues, expenses, and changes in net position report the net position of the District and the changes in them. The District's net position – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic condition, population growth, and new or changed governmental legislation should also be considered.

Net Position

A summary of the District's net position at December 31, 2021, 2020, and 2019 is presented in Table 1 below:

**Table 1
Condensed Statements of Net Position (in Thousands)**

BALANCE SHEET	<u>2021</u>	<u>2020</u>	<u>2019</u>
ASSETS			
Current Assets	\$ 8,299	\$ 7,453	\$ 5,839
Internally Designated Investments	2,947	5,950	2,045
Residnet Deposits Held in Trust	9	15	13
Property and Equipment, Net	8,641	6,790	6,937
Total Assets	<u>\$ 19,896</u>	<u>\$ 20,208</u>	<u>\$ 14,834</u>
LIABILITIES and NET POSITION			
Current Liabilities	2,680	6,018	1,811
Residnet Deposits Held in Trust	9	15	13
Lease Payable, Net	1,195	1,654	1,998
Total Liabilities	<u>3,884</u>	<u>7,687</u>	<u>3,822</u>
DEFERRED INFLOW OF RESOURCES	495	468	439
NET POSITION			
Net Investment in Capital Assets	7,093	4,792	4,594
Unrestricted	8,424	7,261	5,979
Total Net Position	<u>15,517</u>	<u>12,053</u>	<u>10,573</u>
Total Liabilities, Deferred Inflow of Resources, and Net Position	<u>\$ 19,896</u>	<u>\$ 20,208</u>	<u>\$ 14,834</u>

As can be seen by Table 1, Total Net Position increased by approximately \$3,464,000 to \$15.5 million in fiscal year 2021 and increased \$1,480,000 to \$12.1 million in fiscal year 2020, a 28.7% increase in fiscal year 2021 and 14.0% increase in fiscal year 2020. The increase to the District's net position for 2021 is generated from increased volumes and also from recognition of certain refundable advances, including the payroll protection program loan.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019**

Revenues, Expenses, and Changes in Net Position

The following table presents a summary of the District's historical revenues and expenses for the fiscal years ended December 31, 2021, 2020, and 2019.

Table 2

Condensed Statements of Revenue, Expenses, and Changes in Net Position (in Thousands)

	2021	2020	2019
Revenues	\$ 19,102	\$ 17,656	\$ 17,097
Expenses	21,531	19,189	18,181
Operating Income (Loss)	(2,429)	(1,533)	(1,084)
Nonoperating Revenues and Expenses	5,562	2,582	700
Excess (Deficit) of Revenues over Expenses	3,133	1,049	(384)
Capital Grants and Contributions	331	431	408
Increase (Decrease) in Net Position	3,464	1,480	24
Net Position- Beginning of the Year	12,053	10,573	10,549
Net Position- End of the Year	\$ 15,517	\$ 12,053	\$ 10,573

Operating and Financial Performance

The following summarizes the District's statements of revenue, expenses, and changes in net position for the year ended December 31, 2021.

Volume: Inpatient acute admissions for fiscal year 2021 were 168 compared to 171 in fiscal year 2020 and 190 in fiscal year 2019. Acute patient days for fiscal year 2021 were 565 compared to 484 in fiscal year 2020 and 558 in fiscal year 2019. This is an increase of 16.7% in 2021. The acute length of stay was 3.23 days for fiscal 2021, 2.83 days in fiscal 2020 and 3.03 days in fiscal 2019.

Net Patient and Resident Service Revenue: Net patient and resident service revenue increased \$1,408,336 or 8.0% in fiscal year 2021 from fiscal year 2020 and \$585,514 or 3.4% in fiscal year 2020 from fiscal year 2019. Revenue deductions, the amount of patient service revenue uncollectible due to contractual agreements and government reimbursement policies, decreased \$97,247 to \$6,812,050 in 2021 from fiscal year 2020 and decreased \$24,281 to \$6,909,297 in fiscal year 2020 from fiscal year 2019.

Other Operating Revenue: Other operating revenue decreased \$129,620 in fiscal year 2021 from fiscal year 2020 and decreased \$92,307 in fiscal year 2020 from fiscal year 2019.

Salaries: Salaries increased by \$149,253 from the previous year, to \$10,329,815 from fiscal year 2020 of \$10,180,562. For fiscal years 2021 and 2020, the District employed a total of 149 and 167 paid full-time equivalent employees, respectively. The District is in a competitive wage market that includes both healthcare and non-healthcare employers.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019**

Employee Benefits: Total employee benefits increased approximately \$151,000 from approximately \$1,777,000 in fiscal 2020, to \$1,929,000 in fiscal 2021. Group health insurance accounted for approximately 65% of the benefit costs.

Supplies and Other Expense: Supply and other expenses increased by \$270,152 or about 20.5% in fiscal year 2021.

Nonoperating Revenue and Expense: The primary sources of nonoperating revenue and expense are from the District tax levy, investment income generated from various investment holdings, and interest expense. For fiscal year 2021, these amounts are \$546,408, \$8,623, and \$56,450, respectively. For fiscal year 2020, these amounts are \$489,738, \$17,084, and \$65,883, respectively.

Net Capital Assets

At the end of fiscal years 2021 and 2020, the District had invested \$7,092,874 and \$4,791,886 in property and equipment, net, respectively. The net change in capital assets is primarily a result of minimal capital asset additions, netted against a full year of depreciation expense.

Long-Term Debt

The District has long-term obligations totaling \$1,194,533 as of fiscal year 2021 and \$1,654,349 as of fiscal year 2020.

Economic and Other Factors and Next Year's Budget

The District's board and management considered many factors when setting the fiscal year 2021 budget. Of primary importance in setting the 2021 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Salary market surveys to remain competitive on wages offered
- Federal legislative and economic climate – sequestration and Affordable Care Act impact

Contacting the District's Finance Department

The District's financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability. If you have questions about the report or need additional financial information, please contact the finance department at Southeast Colorado Hospital District, 373 E. Tenth Avenue, Springfield, Colorado 81073.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020**

ASSETS	2021	2020
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,716,890	\$ 2,714,692
Investments	690,978	686,374
Accounts Receivable	2,913,134	2,495,010
Inventory	394,168	377,646
Prepaid Expenses and Other Assets	72,419	115,679
Property Tax Receivable	494,894	467,727
Estimated Third Party Payor Settlements	-	586,670
Other Receivables	16,878	8,846
Total Current Assets	8,299,361	7,452,644
INTERNALLY DESIGNATED INVESTMENTS		
Internally Designated for COVID Costs	696,128	3,461,055
Internally Designated for Property and Equipment	1,813,832	2,230,742
Internally Designated for Scholarships	102,781	96,012
Internally Designated for Health Insurance	334,145	162,244
Total Internally Designated Investments	2,946,886	5,950,053
RESIDENT DEPOSITS HELD IN TRUST	9,144	15,241
PROPERTY AND EQUIPMENT		
Land and Land Improvements	212,508	212,508
Buildings and Improvements	9,434,910	9,263,060
Equipment	5,326,203	4,729,190
Construction in Progress	1,548,774	229,993
Subtotal	16,522,395	14,434,751
Less: Accumulated Depreciation and Amortization	(7,881,784)	(7,644,436)
Total Property and Equipment	8,640,611	6,790,315
Total Assets	\$ 19,896,002	\$ 20,208,253

See accompanying Notes to Financial Statements.

LIABILITIES AND NET POSITION	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES		
Current Portion of Lease Payable	\$ 353,204	\$ 344,080
Accounts Payable and Accrued Expenses	1,198,438	1,167,694
Refundable Advance	805,279	2,368,413
Payroll Protection Program Loan	-	2,100,000
Estimated Third Party Payor Settlements	323,434	37,689
Total Current Liabilities	<u>2,680,355</u>	<u>6,017,876</u>
RESIDENT DEPOSITS HELD IN TRUST	9,029	15,126
LEASE PAYABLE, Net of Current Portion	<u>1,194,533</u>	<u>1,654,349</u>
Total Liabilities	3,883,917	7,687,351
DEFERRED INFLOW OF RESOURCES	494,894	467,727
NET POSITION		
Net Investment in Capital Assets	7,092,874	4,791,886
Unrestricted	8,424,317	7,261,289
Total Net Position	<u>15,517,191</u>	<u>12,053,175</u>
Total Liabilities, Deferred Inflow of Resources, and Net Position	<u>\$ 19,896,002</u>	<u>\$ 20,208,253</u>

See accompanying Notes to Financial Statements.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
REVENUES		
Net Patient and Resident Service Revenues	\$ 12,171,047	\$ 10,883,477
Clinic Revenues	2,633,236	2,256,391
Home Health, Hospice, and Therapy Revenues	4,121,494	4,377,573
Other Revenues	176,093	138,878
Total Revenues	19,101,870	17,656,319
EXPENSES		
Salaries and Benefits	13,111,446	12,838,108
Medical and Other Supplies	1,845,702	1,410,676
Purchased and Contracted Services	4,070,210	2,676,953
Repairs and Maintenance	392,974	354,738
Utilities and Telephone	310,882	246,805
State Provider Tax	323,575	206,862
Depreciation and Amortization	807,206	738,022
Other Expenses	669,211	717,223
Total Expenses	21,531,206	19,189,387
OPERATING LOSS	(2,429,336)	(1,533,068)
NONOPERATING REVENUES AND EXPENSES		
Refundable Advances	4,424,350	1,966,278
Property Tax Revenues	492,213	440,310
Specific Ownership Tax Revenues	54,195	49,428
Investment Income	8,623	17,084
Interest Expense	(56,450)	(65,883)
Gain (Loss) on Disposal of Property and Equipment	(78,373)	900
Insurance Proceeds	-	87,507
Noncapital Grants and Contributions	652,173	18,180
Other Nonoperating Revenues	65,612	67,914
Total Nonoperating Revenues and Expenses	5,562,343	2,581,718
EXCESS OF REVENUES OVER EXPENSES	3,133,007	1,048,650
CAPITAL GRANTS AND CONTRIBUTIONS	331,009	431,034
INCREASE IN NET POSITION	3,464,016	1,479,684
Net Position - Beginning of Year	12,053,175	10,573,491
NET POSITION - END OF YEAR	\$ 15,517,191	\$ 12,053,175

See accompanying Notes to Financial Statements.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From and On Behalf of Patients	\$ 19,556,161	\$ 17,265,877
Payments to Salaries and Benefits	(13,068,186)	(5,782,874)
Payments to Suppliers and Contractors	(7,606,364)	(13,005,019)
Net Cash Used by Operating Activities	(1,118,389)	(1,522,016)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	8,623	17,084
Purchase of Investments	(4,604)	9,272
Net Cash Provided by Investing Activities	4,019	26,356
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Property Taxes	546,408	489,738
Non-capital Grants and Contributions	652,173	2,386,593
Refundable Advances	761,216	4,066,278
Other Non-Operating Revenues	65,612	155,421
Net Cash Provided by Non-Capital Financing Activities	2,025,409	7,098,030
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital Grants and Contributions	331,009	431,034
Proceeds from Sale of Property and Equipment	280,745	900
Principal Paid on Capital Leases	(450,692)	(344,423)
Interest Paid on Capital Leases	(56,450)	(65,883)
Purchases of Property and Equipment	(2,938,247)	(591,654)
Loss on Disposition of Property and Equipment	(78,373)	(16)
Net Cash Used by Financing Activities	(2,912,008)	(570,042)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,000,969)	5,032,328
Cash and Cash Equivalents - Beginning of Year	8,664,745	3,632,417
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,663,776	\$ 8,664,745
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and Cash Equivalents	\$ 3,716,890	\$ 2,714,692
Internally Designated Investments	2,946,886	5,950,053
Total Cash and Cash Equivalents	\$ 6,663,776	\$ 8,664,745

See accompanying Notes to Financial Statements.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
STATEMENT OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest Expense	\$ 56,450	\$ 65,883
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	\$ (2,429,336)	\$ (1,533,068)
Adjustments to Reconcile Change in Net Position to Net Cash Used by Operating Activities:		
Deprecation and Amorization	807,206	738,022
Changes in:		
Accounts Receivable	(418,124)	(11,634)
Inventory	(16,522)	(61,523)
Prepaid Expenses and Other Assets	43,260	(69,784)
Estimated Third Party Payor Settlements	872,415	(431,731)
Other Receivables	(8,032)	(3,851)
Resident Deposits Held in Trust	-	3,733
Accounts Payable and Accrued Expenses	30,744	(152,180)
Net Cash Used by Operating Activities	\$ (1,118,389)	\$ (1,522,016)

See accompanying Notes to Financial Statements.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Southeast Colorado Hospital District is a local government unit created for the purpose of providing health care to Baca County, Colorado and the surrounding area.

Reporting Entity

The reporting entity, for financial purposes, is defined as the primary government (Southeast Colorado Hospital District) and its component units. The District has no component units, and the reporting entity consists of the hospital, long-term care facility, and clinic (collectively "the District"). The District is managed by its elected board of directors, which consists of five members.

Measurement Focus and Basis of Accounting

Basis of accounting refers to where revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The District's financial statements are prepared in conformity with accounting principles general accepted in the United States of America as prescribed by the Governmental Accounts Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The District uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis, using the economic resources measurement focus, based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid instruments with an original maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payers.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Accounts Receivables

Patient accounts receivable are recorded and established rates as services are provided. Provisions for uncollectible accounts is made in amounts required to maintain an adequate allowance for anticipated losses. In some cases, services to patients are paid for by Medicare, Medicaid, or other third parties. The amount reimbursed is generally based upon the cost of the services provided, as defined by government regulations. Account balances are reduced for the estimated amount of contractual allowances.

Inventories

Inventories are stated at lower of cost or market, calculated using the first-in, first-out method.

Investments and Internally Designated Investments

Investments and internally designated investments include funds held by the District under Colorado Public Deposit Protection Act (PDPA). Internally designated investments primarily include assets set aside by the board of directions for future capital improvements and costs related to COVID (see Note 10), over which the board of directors retains control and may at its discretion subsequently use for other purposes.

Resident Deposits Held in Trust

The District administers cash accounts on behalf of residents, known as resident trust funds, and these accounts. The accounts maintained on behalf of residents are subject to audit by governmental regulators.

Property and Equipment

Property and equipment are stated at cost. The District uses the straight-line method for financial statement reporting. Estimated useful lives are 5 to 40 years for equipment and building improvements and 40 years for buildings. Property, plant and equipment with unit costs of less than \$5,000 are expensed in the year purchased.

Cost of Borrowing

Borrowing costs attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily take a substantial period of time to get ready for their intended use or sale were expensed during 2021 and 2020. This is in accordance with the requirements set out in GASB No. 89 "Accounting for Interest Costs Incurred Before the End of a Construction Period" (the "Statement" effective for periods beginning after December 15, 2019). The District adopted this Statement as of December 31, 2018.

Property Taxes

Under Colorado Law, all property taxes become due and payable in the year following that in which they are levied. Property taxes are recognized as revenue when payable from the County Treasurer.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Property Taxes (Continued)

Property taxes attach as an enforceable lien on property as of January 1. Taxes may be paid without penalty in either of two ways: (a) Full payment by April 30, or (b) First half must be paid by last day of February, and second half must be paid by June 15. There were no property tax abatements for the years ending December 31, 2021 and 2020.

Deferred Inflows of Resources

Deferred inflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenues) until then. Deferred inflows of resources consist of the unreceived property tax revenues.

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

At December 31, 2021 and 2020, the District had liabilities for accrued vacation of approximately \$497,000 and \$498,000, respectively and are included in the Accounts Payable and Accrued Expenses in the accompanying statements of revenues, expenses, and changes in net position.

Net Position

The net position of the District is classified in the following components:

Net Investment in Capital Assets - consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets.

Restricted Expendable - consist of noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Board.

Restricted Nonexpendable - equal the principal portion of permanent endowments.

Unrestricted - consist of the remaining net position that do not meet the definition of invested in capital assets net of related debt or restricted.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Net Patient and Resident Service Revenue

Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the District does not pursue collection of amounts determined to qualify as charity care, they are reported as gross revenue and as a contractual adjustment to determine total operating revenue. The cost of the charity care provided was approximately \$370,000 and \$0 for the years ending December 31, 2021 and 2020, respectively.

Grants and Contributions

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

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 statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the District's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Fair Value Measurements

To the extent available, the District's investments are recorded at fair value. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take in to account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources.

In contrast, unobservable inputs reflect an District's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the hospital has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Budgetary Accounting

Revenues and expenditures are controlled by budgetary accounting system in accordance with various legal requirements. The budgeted revenues and expenditures represent the original adopted budget as in accordance with Colorado Laws. Budgets are generally prepared on the same basis as that used for accounting purposes.

The District has set procedures to be followed in establishing the budgetary data reflected in the financial statements:

1. Prior to October 15, the Chief Financial Officer submits to the hospital board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public notices are released to obtain taxpayer comments.
3. Prior to November 20, the budget is legally enacted through passage of a resolution.
4. The Chief Financial Officer is authorized to transfer budgeted amounts between categories, however, any revisions that alter the total expenditures must be approved by the hospital board.
5. Formal budgetary integration should be employed as a management control device during the year.
6. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform to the current year basis of presentation. These reclassifications had no effect on the overall net position of District.

Subsequent Events

In preparing these financial statements, the District has considered events and transactions for potential recognition or disclosure through June 23, 2022, the date the financial statements were available to be issued.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 NET PATIENT AND RESIDENT SERVICE REVENUE

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

Medicare

As a critical access hospital, all Medicare revenue sources except Ambulance, Home Health, and Hospice are reimbursed on a cost plus 1 % basis. Other Medicare revenues are paid on a per unit of service basis. The hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The hospital's Medicare cost reports have been finalized by the Medicare fiscal intermediary through December 31, 2019.

Medicaid

Inpatient services provided to Medicaid Program beneficiaries are paid prospectively determined rates per discharge. Outpatient and nursing facility services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been finalized by the Medicaid fiscal intermediary through December 31, 2018.

Blue Cross

Inpatient services rendered to Blue Cross subscribers are reimbursed based on charges less an adjustment of 9%.

Other

The District has also entered into payment agreements with certain commercial insurance carriers. 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 43% and 38%, respectively, of the District's net patient and resident revenue for 2021 and 44% and 38%, respectively, for 2020. 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. The net patient and resident revenue in 2021 and 2020 had no change due to removal of allowances previously estimated that are no longer subject to audits, reviews, and investigations.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 2 NET PATIENT AND RESIDENT SERVICE REVENUE (CONTINUED)

The following is a summary of the District's gross patient and resident service revenue and revenue adjustments for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Gross Patient and Resident Service Revenues	\$ 25,710,505	\$ 24,426,738
Revenue Adjustments:		
Medicare	(5,019,654)	(4,135,461)
Medicaid	259,607	(597,224)
Commerical Insurance and Other	(1,109,892)	(1,273,211)
Provision for Bad Debts	(914,789)	(903,401)
Total Revenue Adjustments	<u>(6,784,728)</u>	<u>(6,909,297)</u>
Total	<u>\$ 18,925,777</u>	<u>\$ 17,517,441</u>

NOTE 3 ACCOUNTS RECEIVABLE

The District grants credit, without collateral, to its patients and residents, most of whom are local residents and are insured under third-party payor agreements. Patient and resident receivables reported as current assets by the District at Decemerber 31 consist of the following:

	<u>2021</u>	<u>2020</u>
Receivables from Patients and Their Insurance Carriers	\$ 3,630,547	\$ 3,103,981
Receivables from Medicare	1,264,664	1,299,640
Receivables from Medicaid	1,159,491	183,806
Less: Contractual Adjustments and Allowance for Uncollectible Accounts	<u>(3,141,568)</u>	<u>(2,092,417)</u>
Total Accounts Receivable	<u>\$ 2,913,134</u>	<u>\$ 2,495,010</u>

NOTE 4 DEPOSITS AND INVESTMENTS

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 pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits and investments of the District at December 31 consist of the following:

	2021		2020	
	Carrying Balance	Bank Balance	Carrying Balance	Bank Balance
Insured (FDIC)	\$ 666,205	\$ 666,205	\$ 511,087	\$ 511,087
Uninsured, collateralized under the Public Deposit Protection Act of the State of Colorado	6,671,988	7,646,519	8,834,780	9,008,485
Cash with the County Treasurer	4,374	-	3,962	-
Cash on Hand	21,331	-	16,531	-
Total Cash and Deposits	<u>\$ 7,363,898</u>	<u>\$ 8,312,724</u>	<u>\$ 9,366,360</u>	<u>\$ 9,519,572</u>

	2021	2020
Cash and Cash Equivalents	\$ 6,601,840	\$ 8,604,888
Certificates of deposits	762,058	761,472
Total Cash and Deposits	<u>\$ 7,363,898</u>	<u>\$ 9,366,360</u>

	2021	2020
Cash and Cash Equivalents	\$ 3,716,890	\$ 2,714,692
Investments	690,978	686,374
Internally Designated Investments	2,946,886	5,950,053
Residents Deposits Held in Trust	9,144	15,241
Total Cash and Deposits	<u>\$ 7,363,898</u>	<u>\$ 9,366,360</u>

Deposits with a balance of \$7,646,519 and \$9,008,485 and a carrying balance of \$6,671,988 and \$8,834,780 as of December 31, 2021 and 2020, respectively are uninsured and exposed to custodial risk, and are collateralized with securities held by the pledging financial institutions.

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which the local government entities may invest:

- Obligations of the United States and certain U.S. government agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 4 DEPOSITS AND INVESTMENTS (CONTINUED)

The District had the following investments at December 31:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Credit Risk Rating</u>
<u>2021</u>			
Certificates of Deposit	6 to 12 Months	\$ 757,058	N/A
COLOTRUST	Under 60 Day Average	5,000	N/A
		<u>\$ 762,058</u>	
<u>2020</u>			
Certificates of Deposit	6 to 12 Months	\$ 756,472	N/A
COLOTRUST	Under 60 Day Average	5,000	N/A
		<u>\$ 761,472</u>	

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities for managing possible fair value losses due to increasing interest rates.

Credit Risk- State Law limits the type of investments allowable. The Certificates of deposit are not rated.

Concentration of Credit Risk - The District has no policy restricting the amount that can be invested in any issuer.

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 has the following recurring fair value measurement as of December 31, 2020 and 2021:

- COLOTRUST- Investments in this external investment pool are reported at \$1 net asset value per share and are not subject to fair value measurement. The investment is reported at cost.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 5 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expense reported as current liabilities by the District consisted of following at December 31:

	2021	2020
Payable to Employees	\$ 725,570	\$ 572,389
Payable to Supplies	301,216	455,305
Claims Incurred But Not Reported- Health Insurance	175,000	140,000
Total Cash and Deposits	\$ 1,201,786	\$ 1,167,694

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment additions, retirements, and balances consisted of following at December 31:

	December 31, 2020	Additions	Retirements	Adjustments	December 31, 2021
Land	\$ 99,489	\$ -	\$ -	\$ -	\$ 99,489
Land Improvements	113,286	-	-	-	113,286
Buildings and Improvements	9,263,060	171,850	-	-	9,434,910
Equipment	4,728,921	1,139,252	(772,232)	229,994	5,325,935
Construction in Progress	229,995	1,548,774	-	(229,994)	1,548,775
Total	14,434,751	2,859,876	(772,232)	-	16,522,395
Less: Accumulated Deprecation	(7,644,436)	(807,207)	569,859	-	(7,881,784)
Property and Equipment, Net	\$ 6,790,315	\$ 2,052,669	\$ (202,373)	\$ -	\$ 8,640,611

	December 31, 2019	Additions	Retirements	Adjustments	December 31, 2020
Land	\$ 95,989	\$ 3,500	\$ -	\$ -	\$ 99,489
Land Improvements	94,721	18,565	-	-	113,286
Buildings and Improvements	9,056,051	-	-	207,009	9,263,060
Equipment	4,269,008	385,624	(26,969)	101,258	4,728,921
Construction in Progress	354,297	183,965	-	(308,267)	229,995
Total	13,870,066	591,654	(26,969)	-	14,434,751
Less: Accumulated Deprecation	(6,933,116)	(738,305)	26,985	-	(7,644,436)
Property and Equipment, Net	\$ 6,936,950	\$ (146,651)	\$ 16	\$ -	\$ 6,790,315

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 7 LEASE PAYABLE

Lease payables consisted of following at December 31:

<u>Description</u>	<u>2021</u>	<u>2020</u>
A lease purchase agreement for the purchase of copiers was executed June 26, 2019. The original amount was \$30,953 with interest at 5% for 5 years with payments of \$623 per month.	\$ 16,952	\$ 22,876
A lease purchase agreement for the purchase of a Brown 16 slice CT was executed January 11, 2019. The original amount was \$240,000 with interest at 0.00% for 5 years with payments of \$4,000 per month.	-	160,000
A lease purchase agreement for the purchase of a copier was executed November 10, 2017. The original amount was \$14,380 with interest at 9.55% for 5 years with payment of \$302 per month.	2,896	6,080
A lease purchase agreement for the purchase of HVAC Equipment was executed October 15, 2016. The original amount was \$2,805,329 with interest at 3.24% for 10 years with payments of \$28,378 per month. (An additional principal payment of \$90,645 was made on December 28, 2016).	1,527,889	1,808,655
A lease purchase agreement for the purchase of a Lexmark copier was executed April 20, 2016. The original amount was \$7,177 with interest at 5.64% for 5 years with payments of \$138 per month.	-	409
Total	<u>1,547,737</u>	<u>1,998,020</u>
Less: Current Portion of Lease Payable	<u>(353,204)</u>	<u>(344,080)</u>
Lease Payable, Net of Current Portion	<u>\$ 1,194,533</u>	<u>\$ 1,654,349</u>

A schedule of changes in the District's lease payable consisted of following at December 31:

	December 31, 2020	<u>Additions</u>	<u>Retirements</u>	December 31, 2021	Amounts Due Within One Year
Leases Payable	<u>\$ 1,998,429</u>	<u>\$ -</u>	<u>\$ (450,692)</u>	<u>\$ 1,547,737</u>	<u>\$ 353,204</u>
	December 31, 2019	<u>Additions</u>	<u>Payments</u>	December 31, 2020	Amounts Due Within One Year
Leases Payable	<u>\$ 2,342,852</u>	<u>\$ -</u>	<u>\$ (344,423)</u>	<u>\$ 1,998,429</u>	<u>\$ 344,080</u>

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 7 LEASE PAYABLE (CONTINUED)

The District has entered into lease agreements for the acquisition of equipment. These lease purchase agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is a schedule of the future minimum lease payments under these capital leases at December 31:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 370,550
2023	362,082
2024	353,818
2025	352,450
2026	<u>288,416</u>
Sub-Total	1,727,316
Less: Amounts Representing Interest	<u>(179,579)</u>
Total	<u><u>\$ 1,547,737</u></u>

NOTE 8 BUDGET

A comparison for budgeted and actual revenues and expenditures as of December 31, 2021 and 2020 is presented in the following schedule (This comparison is not a schedule of operations):

	<u>2021</u>		<u>2020</u>	
	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Revenues	<u>\$ 19,101,870</u>	<u>\$ 21,426,359</u>	<u>\$ 17,656,319</u>	<u>\$ 18,371,779</u>
Expenditures	<u>\$ 21,531,206</u>	<u>\$ 20,997,850</u>	<u>\$ 19,189,387</u>	<u>\$ 18,369,073</u>

NOTE 9 DEFINED CONTRIBUTION PENSION PLAN

The District provides pension benefits for substantially all full time employees through a defined contribution plan of Colorado County Officials and Employees Retirement Association. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. One year of service is required previous to participation in the Colorado County Officials and Employees Retirement Association Plan.

Employees contribute 3% of their salary to the plan with an equal amount contributed by the District. Vesting occurs at the rate of 20% per year. District contributions for, and earnings forfeited by, employees who leave employment before fully vesting are returned to the District.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 9 DEFINED CONTRIBUTION PENSION PLAN (CONTINUED)

The benefit terms are authorized by the Board of Directors of the Southeast Colorado Hospital District and may only be amended by them.

The District has no outstanding pension liability at year end.

Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

In previous years the District adopted an amendment to its Deferred Compensation Plan with CCOERA. The adoption of the amendment was due to recent changes in the Internal Revenue Code. Specifically the amendment states that all amounts deferred under this plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property or rights shall, until made available to the participant or beneficiary, be held in the Colorado County Officials and Employees Retirement Association Defened Compensation Plan Trust for the exclusive benefit of participants and their beneficiaries. Colorado County Officials and Employees Retirement Association is trustee of the trust.

Eligible voluntary employee contributions were \$119,869 and \$120,898 for the years ending December 31, 2021 and 2020, respectively.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Taxpayer's Bill of Rights

In November 1992, the voters of Colorado approved Amendment 1, commonly known as the Taxpayer's bill of rights (TABOR), which adds a new Section 20 to Article X of the Colorado Constitution. TABOR contains tax, spending, revenue and debt limitations which apply to the State of Colorado and all local governments.

Enterprises, defined as government-owned businesses authorized to issue revenue bonds and receiving less than 10% of annual revenue in property taxes and grants from all state and local governments combined, are excluded from the provisions of TABOR. (The District's management believes its operations qualify for this exclusion).

The District's management believes it is in compliance with the provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of the provisions, including the interpretation of the qualifications of an Enterprise will require judicial interpretation.

The District is not in any claims or actions which will result in costs or losses to the District that are uninsured or of a material nature.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Health Care

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management is not aware of any violations of these laws and regulations.

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 illness; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters.

Contingent Liabilities

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence in care
- Environmental pollution
- Violation of regulatory body's rules and regulations
- Violation of federal and/or state laws

No other contingent liabilities such as, but not limited to those described above, are reflected in the accompanying financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

Provider Relief Funds

On March 11, 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic has had a significant impact on global markets, supply chains, businesses, and communities. Specific to the District, COVID-19 has impacted various parts of its operations and financial results for the 2020 and 2021 fiscal years, including but not limited to additional costs for emergency preparedness, disease control and containment, shortages of health care personnel, and loss of revenue due to reductions in certain revenue streams, and may continue into 2022. As a result of the COVID-19 pandemic, management believes it has taken appropriate actions to mitigate the negative impact to the District. As a result of the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). As a result of the CARES Act, various programs have been established to help organizations mitigate the negative impact to their operations and business.

**SOUTHEAST COLORADO HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 10 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Provider Relief Funds (Continued)

Under the CARES Act along with the Paycheck Protection Program (PPP) and Health Care Enhancement Act, the U.S. Department of Health and Human Services (HHS) was allocated \$175 billion in relief funds to hospitals and other health care providers on the front lines of the COVID-19 response. These funds are also known as Provider Relief Funds (PRF). Payments from PRF are being distributed by HHS through various general distributions and targeted distributions. Providers who billed Medicare fee-for-service in calendar year 2019 are eligible to receive distributions. PRF payments may be used to cover lost revenue attributable to COVID-19 or health-related expenses, which include: supplies, equipment, workforce training, reporting COVID-19 test results to federal, state, or local government, building or constructing temporary structures for COVID-19 patient care or non-COVID-19 patients, acquiring additional resourcing, and developing and staffing emergency operation centers. As of December 31, 2020, the District received approximately \$752,000 in PRF funds which is recorded as a refundable advance on the Balance Sheet, along with approximately \$53,000 received in 2020 and not expended at year end. At December 31, 2021, the District recognized approximately \$2,324,000 in PRF and state funds as a Refundable Advance on the statement of revenues, expenses, and changes in net position. In addition, the District received forgiveness of its PPP loan during 2021 of approximately \$2,100,000 which was recognized as a Refundable Advance on the statement of revenues, expenses, and changes in net position.



**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
Southeast Colorado Hospital District
Springfield, 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 Southeast Colorado Hospital District, which comprise the balance sheet as of December 31, 2021, and the related statements of revenues and expenses, changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southeast Colorado Hospital District's internal control over financial reporting (internal control) as a basis for designing 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 Southeast Colorado Hospital District's internal control. Accordingly, we do not express an opinion on the effectiveness of Southeast Colorado Hospital District's internal control.

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

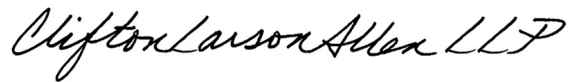
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Colorado Hospital 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 as a basis for the designing financial statement. 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 result 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.



CliftonLarsonAllen LLP

Dallas, Texas
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