



Financial Statements
December 31, 2021 and 2020
Telluride Hospital District

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Independent Auditor's Report

The Board of Directors
Telluride Hospital District
Telluride, Colorado

Report on the Audit of the Financial Statements

Opinions

We have audited the statements of net position of Telluride Hospital District (District), as of and for the year ended December 31, 2021, and 2020 and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position Telluride Hospital District as of December 31, 2021, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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 (Government Auditing Standards)*, issued by the Comptroller General of the United States. 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 Telluride Hospital 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 opinions.

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 Telluride Hospital 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 opinions. 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 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2022, on our consideration of the Telluride 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 Telluride 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 Telluride Hospital District's internal control over financial reporting and compliance.

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

Fargo, North Dakota
July 20, 2022

Introduction

Management's discussion and analysis of Telluride Hospital District's (District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2021, 2020, and 2019. It should be read in conjunction with the District's financial statements, which begin on page 7.

Financial Highlights

- The District's net position increased by \$286,833 or 3.9% in 2021, \$1,322,497 or 21.7% in 2020, and \$839,300 or 16.0% in 2019.
- Total operating revenues increased by \$133,527 or 2.3% in 2021, decreased by \$422,096 or 6.9% in 2020, and increased by \$478,036 or 8.5% in 2019.
- Operating expenses increased by \$232,129 or 2.3% in 2021, \$1,008,033 or 11.1% in 2020, and \$854,821 or 10.3% in 2019.
- The District reported operating losses of \$4,517,980 in 2021, \$4,419,378 in 2020, and \$2,989,249 in 2019.
- Nonoperating revenues decreased by \$857,989 or 15.7% in 2021, increased by \$1,640,053 or 43.0% in 2020, and increased by \$1,599,962 or 72.3% in 2019. The 2020 increase included \$1,381,453 in support from noncapital contributions and grants as well as \$1,072,237 in support from community support activities from the Foundation.

Using This Annual Report

The District's financial statements consist of three statements; a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

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

These two statements report the District's net position and changes in them. The District's total net position – the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources – are one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided and local economic factors should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The District's Net Position

The District's net position is the difference between its assets, liabilities, and deferred inflows of resources. The District's net position increased by \$286,833 or 3.9% in 2021 and increased by \$1,322,497 or 21.7% in 2020 as shown below:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Current assets	\$ 8,247,325	\$ 8,845,768	\$ 6,817,655
Capital assets, net	3,559,299	3,162,275	2,828,240
Other noncurrent assets	<u>24,599</u>	<u>48,188</u>	<u>77,099</u>
Total assets	<u><u>\$ 11,831,223</u></u>	<u><u>\$ 12,056,231</u></u>	<u><u>\$ 9,722,994</u></u>
Liabilities			
Current liabilities	<u>\$ 1,055,980</u>	<u>\$ 1,679,844</u>	<u>\$ 750,848</u>
Deferred Inflows of Resources	<u>3,077,250</u>	<u>2,965,227</u>	<u>2,883,483</u>
Net Position			
Net investment in capital assets	3,559,299	3,162,275	2,828,240
Restricted by donors - expendable	734,356	734,356	62,702
Unrestricted	<u>3,404,338</u>	<u>3,514,529</u>	<u>3,197,721</u>
Total net position	<u>7,697,993</u>	<u>7,411,160</u>	<u>6,088,663</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 11,831,223</u></u>	<u><u>\$ 12,056,231</u></u>	<u><u>\$ 9,722,994</u></u>

Operating Results and Changes in the District's Net Position

The following table highlights the District's operations and changes in net position. The District had operating losses for 2021, 2020, and 2019. Net position increased in 2021, 2020, and 2019.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating Revenues			
Net patient service revenue	\$ 5,417,872	\$ 5,128,355	\$ 5,503,439
Other operating revenue	423,529	579,519	626,531
Total operating revenue	<u>5,841,401</u>	<u>5,707,874</u>	<u>6,129,970</u>
Operating Expenses			
Salaries, wages, and employee benefits	5,780,516	5,546,884	4,989,547
Supplies, professional fees, and other	4,274,544	4,322,695	3,898,665
Depreciation and amortization	304,321	257,673	231,007
Total operating expenses	<u>10,359,381</u>	<u>10,127,252</u>	<u>9,119,219</u>
Operating Loss	<u>(4,517,980)</u>	<u>(4,419,378)</u>	<u>(2,989,249)</u>
Nonoperating Revenues			
Property taxes	3,118,318	2,966,243	2,891,245
Noncapital contributions and donations	614,785	1,381,453	478,892
Forgiveness of Paycheck Protection Program Loan	725,551	-	-
Interest income	5,770	22,141	90,732
Community support activities and other	129,189	1,081,765	350,680
Nonoperating revenues, net	<u>4,593,613</u>	<u>5,451,602</u>	<u>3,811,549</u>
Revenues in Excess of Expenses Before Capital Contributions and Grants	75,633	1,032,224	822,300
Capital Contributions and Grants	<u>211,200</u>	<u>290,273</u>	<u>17,000</u>
Change in Net Position	286,833	1,322,497	839,300
Net Position, Beginning of Year	<u>7,411,160</u>	<u>6,088,663</u>	<u>5,249,363</u>
Net Position, End of Year	<u>\$ 7,697,993</u>	<u>\$ 7,411,160</u>	<u>\$ 6,088,663</u>

Operating Income

The first component of the overall change in the District's net position is its operating income, generally, the difference between operating revenues and the expenses incurred to perform those services. The District reported operating losses of \$4.5 million in 2021, \$4.4 million in 2020, and \$3 million in 2019.

Net patient service revenues increased approximately \$290,000 to approximately \$5.4 million in 2021, an increase of 5.6% compared to 2020, which was primarily driven by an increase in visits in 2021, primarily related to fewer visits in 2020 during the pandemic. Net patient service revenues decreased in 2020 to approximately \$5.1 million, which was a decrease of 6.8% compared to 2019.

Operating expenses increased from approximately \$9.1 million in 2019 to approximately \$10.1 million in 2020, an increase of 11.1%, and increased to approximately \$10.4 million from 2020 to 2021, an increase of 2.3%. The increases in 2021 and 2020 are largely attributable to salaries and benefits, professional contract services, and marketing and grant expense in the Foundation.

Nonoperating Revenues and Expenses

Non-operating revenues and expenses consist primarily of property taxes levied by the District and grants and contributions received from donors and government agencies.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating income and non-operating revenues and expenses, as discussed earlier.

Capital Assets

At the end of 2021, 2020, and 2019 the District had \$3,559,299, \$3,162,275, and \$2,828,240 invested in capital assets, net of accumulated depreciation. During 2021, the District invested approximately \$1,528,000 in new capital assets, primarily for medical equipment and building improvements. During 2020, the District invested approximately \$625,000 in new capital assets, primarily for medical equipment and building improvements. During 2019, the District invested approximately \$488,000 in new capital assets, primarily for the new facility project.

Other Economic Factors

The District is located in a rural area which is predominately a resort community. Additional economic factors affecting the District include changes in county population, increasing numbers of uninsured or underinsured patients and increasing costs of recruiting, hiring, and retaining health care professionals.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and Telluride show the District's accountability for the funds it receives. Questions about this report and requests for additional financial information should be directed to the Telluride Hospital District's Financial Director, 500 West Pacific Avenue, Telluride, CO 81435.

Telluride Hospital District
Statements of Net Position
December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,124,283	\$ 2,273,870
Short-term investments	2,056,131	2,704,825
Receivables		
Patient, net of estimated uncollectibles of \$87,000 and \$67,000 in 2021 and 2020	815,768	640,904
Property taxes receivable	3,077,250	2,965,227
Supplies and prepaid expenses	173,893	260,942
Total current assets	8,247,325	8,845,768
Capital Assets		
Capital assets not being depreciated	894,371	836,492
Capital assets being depreciated, net	2,664,928	2,325,783
Total capital assets	3,559,299	3,162,275
Other Assets	24,599	48,188
Total assets	\$ 11,831,223	\$ 12,056,231
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Accounts payable	\$ 319,662	\$ 302,770
Paycheck Protection Program loan	-	725,551
Accrued compensation and employee benefits	736,318	651,523
Total current liabilities	1,055,980	1,679,844
Deferred Inflows of Resources		
Property taxes	3,077,250	2,965,227
Net Position		
Net investment in capital assets	3,559,299	3,162,275
Restricted by donors - expendable	734,356	734,356
Unrestricted	3,404,338	3,514,529
Total net position	7,697,993	7,411,160
Total liabilities, deferred inflows of resources, and net position	\$ 11,831,223	\$ 12,056,231

Telluride Hospital District
 Statements of Revenues, Expenses and Changes in Net Position
 Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$547,958 and \$312,450 in 2021 and 2020	\$ 5,417,872	\$ 5,128,355
Other revenue	423,529	579,519
Total operating revenues	5,841,401	5,707,874
Operating Expenses		
Salaries and wages	4,743,110	4,419,028
Employee benefits	1,037,406	1,127,856
Professional and contract services	2,772,164	2,393,261
Supplies	428,572	683,495
Depreciation	304,321	257,673
Information technology	423,198	408,980
Occupancy	410,848	362,450
Other	239,762	474,509
Total operating expenses	10,359,381	10,127,252
Operating Loss	(4,517,980)	(4,419,378)
Nonoperating Revenues (Expenses)		
Property taxes	3,118,318	2,966,243
Noncapital contributions and grants	614,785	1,381,453
Forgiveness of Paycheck Protection Program Loan	725,551	-
Other	21,576	9,528
Interest income	5,770	22,141
Community support activities	107,613	1,072,237
Total nonoperating revenues, net	4,593,613	5,451,602
Revenues in Excess of Expenses Before Capital Contributions and Grants	75,633	1,032,224
Capital Contributions and Grants	211,200	290,273
Change in Net Position	286,833	1,322,497
Net Position, Beginning of Year	7,411,160	6,088,663
Net Position, End of Year	\$ 7,697,993	\$ 7,411,160

Telluride Hospital District
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Cash received from patient services	\$ 5,233,789	\$ 5,269,601
Payments to and on behalf of employees	(5,695,721)	(5,429,589)
Payments to suppliers and contractors	(4,179,126)	(4,356,703)
Other receipts and payments, net	447,118	609,180
Net Cash Used For Operating Activities	<u>(4,193,940)</u>	<u>(3,907,511)</u>
Noncapital Financing Activities		
Property tax revenue	3,118,318	2,966,243
Proceeds from Paycheck Protection Program loan	-	725,551
Noncapital contributions and grants	614,785	1,381,453
Other non-operating revenues	129,189	1,081,765
Net Cash From Noncapital Financing Activities	<u>3,862,292</u>	<u>6,155,012</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets, depreciable	(701,345)	(572,793)
Purchase of capital assets, non-depreciable	(57,879)	(52,624)
Capital contributions and grants	211,200	290,273
Net Cash Used For Capital and Capital Related Financing Activities	<u>(548,024)</u>	<u>(335,144)</u>
Investing Activities		
Interest income	5,770	22,141
Purchase of short-term investments	-	(864,047)
Sale of short-term investments	724,315	33,709
Net Cash From (Used For) Investing Activities	<u>730,085</u>	<u>(808,197)</u>
Net Change in Cash and Cash Equivalents	(149,587)	1,104,160
Cash and Cash Equivalents, Beginning of Year	<u>2,273,870</u>	<u>1,169,710</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,124,283</u>	<u>\$ 2,273,870</u>

Telluride Hospital District
 Statements of Cash Flows
 Years Ended December 31, 2021 and 2020

	2021	2020
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (4,517,980)	\$ (4,419,378)
Adjustments to reconcile operating loss to cash used for operating activities		
Depreciation	304,321	257,673
Provision for bad debts	547,958	312,450
Changes in assets and liabilities		
Patient receivables	(732,041)	(170,454)
Supplies and prepaids	87,049	(120,158)
Other assets	49,269	63,114
Accounts payable	16,892	86,150
Accrued compensation and employee benefits	50,592	83,092
	<u>\$ (4,193,940)</u>	<u>\$ (3,907,511)</u>
Net Cash used for Operating Activities		

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Telluride Hospital District (the District) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the District are described below.

Reporting Entity

The District was established in 1983 to operate and maintain a community health clinic and emergency center for the diagnosis and treatment of individuals requiring outpatient services and emergency care in the community and surrounding area of Telluride, Colorado. In addition to its primary purpose, the District supports community health care through ongoing review and assessment of regional health care needs and cooperation with local, regional, state, and federal health care initiatives.

For financial reporting purposes, the District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

Blended Component Unit

Telluride Medical Center Foundation (Foundation) was formed exclusively for charitable purposes for the benefit of the District. The Foundation is organized as a Colorado nonprofit corporation and is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. The Foundation has been determined to be a component unit based on the Foundation's bylaws and is presented as a blended component unit in the District's financial statements. The financial statements include the financial activity of the District and Foundation. All significant intercompany transactions and balances have been eliminated.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the District's assets, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted net position

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations, which require them to be maintained permanently by the District.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less. For purposes of the statement of cash flows, the District considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Short-Term Investments

Short-term investments include deposits with an original maturity of three to twelve months.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Property Tax Receivable and Revenues

Property tax receivable is recognized on the lien date, which is January 1 of the tax year in Colorado. The property tax receivable represent taxes certified by the Board of Directors to be collected in the next fiscal year. However, by statute, the tax asking becomes effective on the first day of the following year. Although the property tax receivable has been recorded, the related revenue is considered a deferred inflow of resources – unavailable revenue and will not be recognized as revenue until the year in which it is levied.

Lien date	January 1
Levy date	January 1, succeeding year
Due dates	February 28 and June 15, succeeding year

In 2021, the District received \$3,118,318 which was used for the District's general operations. In 2020, the District received \$2,966,243, of which was used for the District's general operations.

Supplies

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

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of capital assets are as follows:

Buildings and improvements	5-40 years
Equipment	5-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of (less than) expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Compensated Absences

The District's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. The liability for compensated absences is included with accrued compensation and employee benefits in the accompanying financial statements.

Deferred Inflows of Resources

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

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 and expenses of the District result from exchange transactions associated with providing health care services - the District's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Charity Care

The District provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the District does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was approximately \$79,000 and \$87,000 for the years ended December 31, 2021 and 2020, calculated by multiplying the ratio of cost to gross charges for the District by the gross uncompensated charges associated with providing charity care to its patients.

Grants and Contributions

The District receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of (less than) expenses.

Budgets

The District adopts an annual budget in accordance with Colorado Statutes. The budgeted revenue and expenditures are used by management as a control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.

Note 2 - Net Patient Service Revenue

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

Medicare/Medicaid – Clinical and emergency services rendered to program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors.

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

Concentration of net revenues by major payor accounted for the following percentages of the District's patient service revenues for the years ended December 31, 2021 and 2020:

	2021	2020
Other third-party payors and patients	71%	73%
Patient self-pay	5%	6%
Medicare	16%	14%
Medicaid	8%	7%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments as of December 31, 2021 and 2020 are as follows:

	2021	2020
Carrying Amount		
Cash	\$ 2,124,283	\$ 2,273,870
Short-term investments	2,056,131	2,704,825
Total carrying amount	\$ 4,180,414	\$ 4,978,695

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the District's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the District. Statutes also require that the market value of the collateral be at least 102% of the excess deposits. The District's deposit policy does not further restrict bank deposits or limit investment deposits.

The District's deposits in banks at December 31, 2021 and 2020 were entirely covered by federal depository insurance or by collateral held by the District's custodial bank in the District's name.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA.

PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2021 and 2020, the District's deposits were entirely covered by FDIC and PDPA.

Investments

The District's investments are reported at fair value. The District is authorized by statute to invest funds in obligations of the United States and certain U.S. government agency securities; commercial paper; local government investment pools; certain money market funds; written repurchase agreements collateralized by certain authorized securities. The District's investments as of December 31, 2021 and 2020 of \$2,056,131 and \$2,704,825 are invested in Colotrust, a local government investment pool established for local governments in Colorado. These pools operate similar to money market funds and each share is equal in value to \$1. This investment is reported at Net Asset Value per share, as reported by the custodian. State statute limits Colotrust investments to U.S. treasury and U.S. Agency securities and is rated AAAM by Standard and Poor's.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the years ended December 31, 2021 and 2020 are as follows:

	Balance December 31, 2020	Additions	Retirements	Balance December 31, 2021
Capital assets not being depreciated				
New facility project	\$ 836,492	\$ 57,879	\$ -	\$ 894,371
Capital assets being depreciated				
Medical equipment	\$ 1,770,058	\$ 610,531	\$ 5,000	\$ 2,375,589
Building improvements	3,190,590	61,355	47,279	3,204,666
Administrative equipment	898,799	29,459	5,600	922,658
Furniture and fixtures	79,060	-	-	79,060
Total capital assets being depreciated	5,938,507	\$ 701,345	\$ 57,879	6,581,973
Less accumulated depreciation for				
Medical equipment	1,438,416	\$ 115,118	\$ -	1,553,534
Building improvements	1,391,974	132,786	-	1,524,760
Administrative equipment	710,712	55,072	-	765,784
Furniture and fixtures	71,622	1,345	-	72,967
Total accumulated depreciation	3,612,724	\$ 304,321	\$ -	3,917,045
Net capital assets being depreciated	\$ 2,325,783			\$ 2,664,928
Capital assets, net	\$ 3,162,275			\$ 3,559,299

The new facility project represents costs related to the design and construction of a new facility. The new facility is in the planning and site selection phase. There are no commitments at December 31, 2021 related to this project.

Telluride Hospital District
Notes to the Financial Statements
December 31, 2021 and 2020

	Balance December 31, 2019	Additions	Retirements	Balance December 31, 2020
Capital assets not being depreciated				
New facility project	\$ 783,868	\$ 52,624	\$ -	\$ 836,492
Capital assets being depreciated				
Medical equipment	\$ 1,524,088	\$ 245,970	\$ -	\$ 1,770,058
Building improvements	2,961,796	262,502	33,708	3,190,590
Administrative equipment	834,479	64,320	-	898,799
Furniture and fixtures	79,060	-	-	79,060
Total capital assets being depreciated	5,399,423	\$ 572,792	\$ 33,708	5,938,507
Less accumulated depreciation for				
Medical equipment	\$ 1,352,565	\$ 85,851	\$ -	\$ 1,438,416
Building improvements	1,284,726	107,248	-	1,391,974
Administrative equipment	647,482	63,230	-	710,712
Furniture and fixtures	70,278	1,344	-	71,622
Total accumulated depreciation	3,355,051	\$ 257,673	\$ -	3,612,724
Net capital assets being depreciated	\$ 2,044,372			\$ 2,325,783
Capital assets, net	\$ 2,828,240			\$ 3,162,275

Note 5 - Paycheck Protection Program (PPP) Loan

The District was granted a \$725,500 loan under the PPP administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The District initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA. The District recognized \$725,500 of loan forgiveness income for the year ended December 31, 2021.

Note 6 - Pension Plans

Plan Description and Funding Policy

The District has a deferred compensation plan (the Plan) through annuity contracts with Colorado County Officials and Employees Retirement Association (CCOERA) in accordance with Section 457(b) of the Internal Revenue Code (IRC). The Plan allows participating employees to defer a portion of their compensation for retirement purposes. The deferred compensation is invested for the participants by the District under the agreements in the Plan. Under provisions of the IRC, all Plan assets are considered to be the property of the eligible participants and are, therefore, not considered to be assets of the District.

The District has offered a 401(a) Plan through CCOERA. Under terms of the Plan, all employees who have completed one year of service are eligible to participate. Benefit provisions are contained in the plan document and were established and can be amended by action of the District’s governing body. Participants may defer a portion of their compensation up to specified limits according to the IRC. The District will match 3% of the participants’ contributions monthly. Non-vested benefits will be forfeited. The amounts that were forfeited during the years ended December 31, 2021, 2020, and 2019 were not significant. For the years ended December 31, 2021, 2020, and 2019, the District contributed \$99,273, \$104,779, and \$106,528 to the Plan.

Note 7 - Concentrations of Credit Risk

The District grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2021 and 2020 was as follows:

	2021	2020
Other third-party payors and patients	64%	72%
Patient self-pay	22%	19%
Medicare	10%	6%
Medicaid	4%	3%
	100%	100%

Note 8 - Contingencies

Risk Management

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

Malpractice Insurance

The District has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

COVID-19 Pandemic

During 2020 and 2021, the world-wide coronavirus pandemic impacted national and global economies. The District is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the District is not known.

Litigation, Claims, and Disputes

The District is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the District.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 9 - Presentation of Component Unit

The following summarizes combining information for the District and Foundation which has been presented as a blended component unit, as of and for the year ended December 31, 2021.

Statement of net position as of December 31, 2021:

	District	Foundation	Eliminations	Combined
Assets				
Total current assets	\$ 6,584,973	\$ 1,808,816	\$ (146,464)	\$ 8,247,325
Total capital assets	3,559,299	-	-	3,559,299
Total other assets	(1,081)	25,680	-	24,599
	<u>\$ 10,143,191</u>	<u>\$ 1,834,496</u>	<u>\$ (146,464)</u>	<u>\$ 11,831,223</u>
Liabilities, Deferred Inflows of Resources, and Net Position				
Current Liabilities	\$ 1,055,980	\$ 115,897	\$ (146,464)	\$ 1,025,413
Deferred Inflows of Resources	3,077,250	-	-	3,077,250
Net Position				
Net investment in capital assets	3,559,299	-	-	3,559,299
Restricted by donors - expendable	-	734,356	-	734,356
Unrestricted	2,450,662	953,676	-	3,404,338
	<u>6,009,961</u>	<u>1,688,032</u>	<u>-</u>	<u>7,697,993</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 10,143,191</u>	<u>\$ 1,803,929</u>	<u>\$ (146,464)</u>	<u>\$ 11,800,656</u>

Telluride Hospital District
Notes to the Financial Statements
December 31, 2021 and 2020

Operating results and changes in net position for the year ended December 31, 2021:

	<u>District</u>	<u>Foundation</u>	<u>Combined</u>
Operating Revenues			
Net patient service revenue, net of provision for bad debts of \$547,958	\$ 5,417,872	\$ -	\$ 5,417,872
Other revenue	423,529	-	423,529
Total operating revenues	<u>5,841,401</u>	<u>-</u>	<u>5,841,401</u>
Operating Expenses			
Other operating expenses	9,941,132	113,928	10,055,060
Depreciation	304,321	-	304,321
Total operating expenses	<u>10,245,453</u>	<u>113,928</u>	<u>10,359,381</u>
Operating Loss	(4,404,052)	(113,928)	(4,517,980)
Nonoperating revenues, net	<u>4,362,487</u>	<u>231,126</u>	<u>4,593,613</u>
Revenues in Excess of Expenses Before Capital Contributions and Grants	(41,565)	117,198	75,633
Capital Contributions and Grants	<u>-</u>	<u>211,200</u>	<u>211,200</u>
Change in Net Position	(41,565)	328,398	286,833
Net Position, Beginning of Year	<u>5,359,028</u>	<u>2,052,132</u>	<u>7,411,160</u>
Net Position, End of Year	<u>\$ 5,317,463</u>	<u>\$ 2,380,530</u>	<u>\$ 7,697,993</u>

Cash flows for the year ended December 31, 2021:

Net Cash used for Operating Activities	\$ (4,071,094)	\$ (122,846)	\$ (4,193,940)
Net Cash from Noncapital Financing Activities	3,754,679	107,613	3,862,292
Net Cash from (used for) Capital Related Financing Activities	(759,224)	211,200	(548,024)
Net Cash from Investing Activities	<u>726,006</u>	<u>4,079</u>	<u>730,085</u>
Net Change in Cash and Cash Equivalents	(349,633)	200,046	(149,587)
Cash and Cash Equivalents, Beginning of Year	<u>362,005</u>	<u>1,911,865</u>	<u>2,273,870</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,372</u>	<u>\$ 2,111,911</u>	<u>\$ 2,124,283</u>

The following summarizes combining information for the District and Foundation, which has been presented as a blended component unit, as of and for the year ended December 31, 2020.

Statement of net position as of December 31, 2020:

	District	Foundation	Eliminations	Combined
Assets				
Total current assets	\$ 7,079,568	\$ 2,026,452	\$ (260,252)	\$ 8,845,768
Total capital assets	3,162,275	-	-	3,162,275
Total other assets	22,508	25,680	-	48,188
	<u>\$ 10,264,351</u>	<u>\$ 2,052,132</u>	<u>\$ (260,252)</u>	<u>\$ 12,056,231</u>
Liabilities, Deferred Inflows of Resources, and Net Position				
Current Liabilities	\$ 1,940,096	\$ -	\$ (260,252)	\$ 1,679,844
Deferred Inflows of Resources	2,965,227	-	-	2,965,227
	<u>4,905,323</u>	<u>-</u>	<u>(260,252)</u>	<u>4,645,071</u>
Net Position				
Net investment in capital assets	3,162,275	-	-	3,162,275
Restricted by donors - expendable	-	734,356	-	734,356
Unrestricted	2,196,753	1,317,776	-	3,514,529
	<u>5,359,028</u>	<u>2,052,132</u>	<u>-</u>	<u>7,411,160</u>
	<u>\$ 10,264,351</u>	<u>\$ 2,052,132</u>	<u>\$ (260,252)</u>	<u>\$ 12,056,231</u>

Telluride Hospital District
Notes to the Financial Statements
December 31, 2021 and 2020

Operating results and changes in net position for the year ended December 31, 2020:

	<u>District</u>	<u>Foundation</u>	<u>Combined</u>
Operating Revenues			
Net patient service revenue, net of provision for bad debts of \$312,450	\$ 5,128,355	\$ -	\$ 5,128,355
Other revenue	579,519	-	579,519
Total operating revenues	<u>5,707,874</u>	<u>-</u>	<u>5,707,874</u>
Operating Expenses			
Other operating expenses	9,695,524	174,055	9,869,579
Depreciation	257,673	-	257,673
Total operating expenses	<u>9,953,197</u>	<u>174,055</u>	<u>10,127,252</u>
Operating Loss	(4,245,323)	(174,055)	(4,419,378)
Nonoperating revenues, net	<u>4,371,394</u>	<u>1,080,208</u>	<u>5,451,602</u>
Revenues in Excess of Expenses Before Capital Contributions and Grants	126,071	906,153	1,032,224
Capital Contributions and Grants	<u>-</u>	<u>290,273</u>	<u>290,273</u>
Change in Net Position	126,071	1,196,426	1,322,497
Net Position, Beginning of Year	<u>5,232,957</u>	<u>855,706</u>	<u>6,088,663</u>
Net Position, End of Year	<u>\$ 5,359,028</u>	<u>\$ 2,052,132</u>	<u>\$ 7,411,160</u>

Cash flows for the year ended December 31, 2020:

	<u>District</u>	<u>Foundation</u>	<u>Combined</u>
Net Cash used for Operating Activities	\$ (3,724,933)	\$ (182,578)	\$ (3,907,511)
Net Cash from Noncapital Financing Activities	4,971,315	1,183,697	6,155,012
Net Cash from (used for) Capital Related Financing Activities	(625,417)	290,273	(335,144)
Net Cash from (used for) Investing Activities	<u>(816,168)</u>	<u>7,971</u>	<u>(808,197)</u>
Net Change in Cash and Cash Equivalents	(195,203)	1,299,363	1,104,160
Cash and Cash Equivalents, Beginning of Year	<u>557,208</u>	<u>612,502</u>	<u>1,169,710</u>
Cash and Cash Equivalents, End of Year	<u>\$ 362,005</u>	<u>\$ 1,911,865</u>	<u>\$ 2,273,870</u>



Supplementary Information
December 31, 2021 and 2020

Telluride Hospital District



Independent Auditor's Report on Supplementary Information

The Board of Directors
Telluride Hospital District
Telluride, Colorado

We have audited the financial statements of Telluride Hospital District as of and for the year ended December 31, 2021, and 2020 and our report thereon July 20, 2022, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 28 and 29 is presented for purposes of additional analysis, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Budgeted Revenues and Expenses shown on page 28, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The Budgeted Revenues and Expenses has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota
July 20, 2022

Telluride Hospital District
Schedule of Budgeted and Actual Revenues and Expenses
December 31, 2021 and 2020

	Actual	Budgeted	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 5,417,872	\$ 6,796,501	\$ (1,378,629)
Other revenue	423,529	-	423,529
	<u>5,841,401</u>	<u>6,796,501</u>	<u>(955,100)</u>
Operating Expenses			
Salaries and wages	4,743,110	4,289,617	(453,493)
Employee benefits	1,037,406	1,038,936	1,530
Professional and contract services	2,772,164	2,869,661	97,497
Supplies	428,572	653,664	225,092
Depreciation	304,321	231,323	(72,998)
Information technology	423,198	-	(423,198)
Occupancy	410,848	330,923	(79,925)
Other	239,762	311,236	71,474
	<u>10,359,381</u>	<u>9,725,360</u>	<u>(634,021)</u>
Operating Loss	(4,517,980)	(2,928,859)	(1,589,121)
Nonoperating Revenues, net	4,593,613	2,804,706	1,788,907
Capital Contributions and Grants	<u>211,200</u>	<u>170,000</u>	<u>41,200</u>
Change in Net Position	<u>\$ 286,833</u>	<u>\$ 45,847</u>	<u>\$ 240,986</u>

Notes to Schedule

1. Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.
2. Appropriations are adopted by resolutions in total.
3. Management believes that the District is compliant with the rules of Colorado's Taxpayer's Bill of Rights (TABOR).

Telluride Hospital District
 Statements of Revenues and Expenses– Departmental (Medical Center Only)
 Year Ended December 31, 2021

	Emergency Care	Primary Care	General and Administrative	Total
Operating Revenues				
Net patient service revenue, net of provision for bad debts of \$547,958 in 2021 and \$312,450 in 2020	\$ 2,708,284	\$ 2,709,588	\$ -	\$ 5,417,872
Other revenue	61	371,204	52,264	423,529
Total operating revenues	<u>2,708,345</u>	<u>3,080,792</u>	<u>52,264</u>	<u>5,841,401</u>
Operating Expenses				
Salaries and wages	1,047,369	2,668,407	1,027,334	4,743,110
Employee benefits	237,045	502,654	297,707	1,037,406
Professional and contract services	1,713,979	566,506	373,166	2,653,651
Supplies	138,812	96,955	191,880	427,647
Depreciation	-	-	304,321	304,321
Information technology	-	-	423,198	423,198
Occupancy	1,072	141,881	265,361	408,314
Other	-	-	130,366	130,366
Total operating expenses	<u>3,138,277</u>	<u>3,976,403</u>	<u>3,013,333</u>	<u>10,128,013</u>
Operating Loss	<u>(429,932)</u>	<u>(895,611)</u>	<u>(2,961,069)</u>	<u>(4,286,612)</u>
Nonoperating Revenues (Expenses)				
Property taxes	-	-	3,118,318	3,118,318
Noncapital contributions and grants	-	112,144	958,265	1,070,409
Forgiveness of PPP loan	-	-	725,551	725,551
Other	4,951	16,920	(295)	21,576
Interest income	-	-	1,257	1,257
Total nonoperating revenues (expenses), net	<u>4,951</u>	<u>129,064</u>	<u>4,803,096</u>	<u>4,937,111</u>
Revenues in Excess of (Less Than) Expenses Before Capital Contributions and Grants	<u>\$ (424,981)</u>	<u>\$ (766,547)</u>	<u>\$ 1,842,027</u>	<u>\$ 650,499</u>



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Telluride Hospital District
Telluride, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Telluride Hospital District (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, and have issued our report thereon dated July 20, 2022.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, 2021-A and 2021-B, which are considered to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

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

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Fargo, North Dakota
July 20, 2022

2021-A Preparation of Financial Statements
Significant Deficiency in Internal Control over Financial Reporting

Criteria – A good system of internal accounting control should provide for the preparation of the financial statements and footnotes in accordance with generally accepted accounting principles that are materially correct.

Condition – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited, which include the accompanying required footnote disclosures. As auditors, we were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

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

Effect – Inadequate controls over financial reporting could result in the District not being able to draft the financial statements and accompanying footnotes that are materially correct without the assistance of the auditors.

Recommendation – This circumstance is not unusual in an organization of your size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Due to cost considerations, the District will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

2021-B Limited Size of Office
Significant Deficiency in Internal Control over Financial Reporting

Criteria – A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition – The limited number of staff of the District does not facilitate the segregation of duties necessary to achieve a low level of control risk.

Cause – The District’s size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

Effect – Inadequate segregation of duties could adversely affect the District’s ability to detect and correct unintentional or intentional misstatements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – We recognize your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control. However, the District should continually review its internal control procedures, other compensating controls, and monitoring procedures to obtain the maximum internal control possible under the circumstances. In addition, active involvement of the Board of Trustees and the Board’s knowledge of the operations is an effective control.

Response – The District agrees with the finding and will continue to monitor the District’s operations and procedures very closely. In addition, the District will review its internal control over its financial reporting process and implement improvements in the segregation of duties where applicable.