



TRINIDAD AREA HEALTH ASSOCIATION, INC.

Financial Statements

For the Years Ended December 31, 2022 and 2021

And

Independent Auditors' Report

TRINIDAD AREA HEALTH ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Trinidad Area Health Association, Inc.

Opinion

We have audited the accompanying financial statements of Trinidad Area Health Association, Inc. (a non-profit organization) which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations and changes in net assets, and of cash flows for the years 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 Trinidad Area Health Association, Inc. as of December 31, 2022 and 2021, and the results of its operations and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Trinidad Area Health Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 Trinidad Area Health Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility 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 generally accepted 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 generally accepted 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 Trinidad Area Health Association, Inc.'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 Trinidad Area Health Association, Inc.'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.

Stockman Kast Ryan + Co. LLP

June 26, 2023

TRINIDAD AREA HEALTH ASSOCIATION, INC.

BALANCE SHEETS

DECEMBER 31, 2022 AND 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,130,992	\$ 16,409,656
Patient accounts receivable, net	4,915,772	4,692,513
Inventories	636,378	700,282
Short-term investments		2,119,226
Other current assets	<u>214,040</u>	<u>289,922</u>
Total current assets	22,897,182	24,211,599
INVESTMENTS LIMITED AS TO USE	191,622	30,456
LONG-TERM INVESTMENTS	1,085,907	1,067,070
PROPERTY AND EQUIPMENT, NET	<u>39,942,055</u>	<u>42,207,469</u>
TOTAL ASSETS	<u>\$ 64,116,766</u>	<u>\$ 67,516,594</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 583,704	\$ 497,923
Accrued salaries and other expenses	2,856,833	2,581,816
Estimated third party payer settlements	517,159	793,746
Patient refunds payable	653,237	770,309
Refundable provider relief fund advances		1,558,328
Current maturities of Medicare advance payments		857,029
Current maturities of notes payable	772,948	753,536
Current maturities of financing lease obligations	<u>24,912</u>	<u>193,321</u>
Total current liabilities	<u>5,408,793</u>	<u>8,006,008</u>
LONG-TERM LIABILITIES		
Notes payable	30,393,432	31,141,497
Financing lease obligations		<u>23,342</u>
Total long-term liabilities	<u>30,393,432</u>	<u>31,164,839</u>
TOTAL LIABILITIES	35,802,225	39,170,847
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>28,314,541</u>	<u>28,345,747</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 64,116,766</u>	<u>\$ 67,516,594</u>

See notes to financial statements.

TRINIDAD AREA HEALTH ASSOCIATION, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING REVENUES		
Net patient service revenue	\$ 39,801,829	\$ 35,368,031
Other operating revenue	<u>2,317,007</u>	<u>4,292,124</u>
Total operating revenues	<u>42,118,836</u>	<u>39,660,155</u>
OPERATING EXPENSES		
Salaries and wages	17,769,597	19,446,795
Purchased services	9,185,411	6,574,236
Medical supplies and other	4,837,339	4,238,689
Employee benefits	4,374,837	4,329,524
Depreciation	2,253,986	2,219,602
Provider fees	1,560,771	1,762,203
Other	<u>2,806,217</u>	<u>2,285,142</u>
Total operating expenses	<u>42,788,158</u>	<u>40,856,191</u>
LOSS FROM OPERATIONS	<u>(669,322)</u>	<u>(1,196,036)</u>
OTHER INCOME		
Grants and contributions	288,418	52,573
Other Income	<u>349,698</u>	<u>135,499</u>
Total other income	<u>638,116</u>	<u>188,072</u>
CHANGE IN NET ASSETS — REVENUES UNDER EXPENSES	(31,206)	(1,007,964)
NET ASSETS, Beginning of year	<u>28,345,747</u>	<u>29,353,711</u>
NET ASSETS, End of year	<u>\$ 28,314,541</u>	<u>\$ 28,345,747</u>

See notes to financial statements.

TRINIDAD AREA HEALTH ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
OPERATING ACTIVITIES		
Change in net assets	\$ (31,206)	\$ (1,007,964)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,253,986	2,219,602
Amortization of debt issuance costs	25,778	20,651
Loss (gain) on disposal of property and equipment	(23,455)	20,834
Changes in operating assets and liabilities:		
Patient accounts receivable	(223,259)	(1,157,177)
Inventories	63,904	(60,736)
Other current assets	154,775	218,649
Accounts payable and accrued expenses	164,833	444,439
Refundable provider relief fund advances	(1,558,328)	(567,317)
Medicare advance payments	(857,029)	(1,447,058)
Estimated third-party payer settlements	(276,587)	1,522,964
Net cash provided by (used in) operating activities	<u>(306,588)</u>	<u>206,887</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(177,322)	(2,070,590)
Proceeds from disposals of property and equipment	212,205	55,000
Proceeds from maturity of investments	1,939,223	
Purchase of investments		(45,170)
Net cash provided by (used in) investing activities	<u>1,974,106</u>	<u>(2,060,760)</u>
FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(191,751)	(371,374)
Principal payments on notes payable	(754,431)	(24,277,965)
Proceeds from issuance of notes payable		29,655,970
Debt issuance costs		(184,562)
Net cash provided by (used in) financing activities	<u>(946,182)</u>	<u>4,822,069</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	721,336	2,968,196
CASH AND CASH EQUIVALENTS, Beginning of year	<u>16,409,656</u>	<u>13,441,460</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 17,130,992</u>	<u>\$ 16,409,656</u>

(Continued)

TRINIDAD AREA HEALTH ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Purchase of property through issuance of note payable and short-term construction loan	<u>\$ —</u>	<u>\$ 2,990,349</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid, net of capitalized interest of \$0 and \$524,334, respectively	<u>\$ 841,492</u>	<u>\$ 315,322</u>

See notes to financial statements.

(Concluded)

TRINIDAD AREA HEALTH ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Trinidad Area Health Association, Inc. (the Hospital) is a not-for-profit corporation operating as Mount San Rafael Hospital, established for the purpose of providing hospital medical care and treatment to the people of Trinidad and Las Animas County, Colorado (the County).

Net Assets — The Hospital reports information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions - Net assets available for use in general operations - not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions - Net assets subject to donor-imposed (or grantor-imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

There were no net assets with donor restrictions as of December 31, 2022 and 2021.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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 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 all liquid investments with original maturities of three months or less. The Hospital maintains deposits in financial institutions and these deposits periodically exceed federally insured limits.

Investments and Investment Income — Investments are carried at fair value. Investments in certificates of deposit are valued at cost, which approximates fair value. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on certificates of deposit are excluded from the excess of revenues over expenses. See Note 3 for further information on investments.

Investments Limited As to Use — Investments limited as to use consist of investments held by the Hospital for debt reserves as required by the Hospital's loan agreements. See note 7.

Net Patient Service Revenue and Patient Receivables — Net patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled for providing patient care. These amounts are due from patients, third-party payers, and others and includes variable consideration for retroactive revenue adjustments due to settlement of reviews and audits.

Generally, the Hospital bills the patients and third-party payers several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Hospital believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The Hospital measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the Hospital does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Hospital is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Hospital accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payer classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, the Hospital has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

The Hospital has agreements with third-party payers that generally provide for payments to the Hospital at amounts different from its established rates. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by the Hospital. The Hospital determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payers, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients.

Explicit price concessions are based on contractual agreements, discount policies and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration the Hospital expects to receive from patients, which are determined based on historical collection experience, current market conditions and other factors.

Generally, patients who are covered by third-party payers are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The Hospital estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation as well as significant regulatory action, and, in the normal course of business, the Hospital is subject to contractual reviews and audits. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. The Hospital believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and that adequate provisions have been made for any adjustments that may result from final settlements.

Settlements with third-party payers for retroactive adjustments due to reviews and audits are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care in the period the related services are provided. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and the Hospital's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such reviews and audits.

Grants and Contributions Receivable — Unconditional grants and contributions receivable are recognized in the period received. Conditional grants and contributions receivable are recognized when the conditions on which they depend are substantially met.

The Hospital uses the allowance method to account for uncollectible grants and contributions receivable. The allowance is based on historical experience and management's analysis of individual grants and contributions. Grants and contributions receivable are considered by management to be fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

Inventories — Inventories are stated at lower of cost (first-in, first-out) or net realizable value.

Property and Equipment — Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Interest costs incurred during the construction period are capitalized. Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor.

Compensated Absences — Employees of the Hospital earn a vested right to compensation for unused vacation and personal absence time. Accordingly, the Hospital has recorded a liability of \$1,292,426 and \$1,157,432 as of December 31, 2022 and 2021, respectively, for vacation and personal absence compensation that employees have earned but not taken.

Debt Issuance Costs — Costs incurred in connection with the issuance of debt are deferred and amortized over the life of the related debt. Such costs are netted with notes payable in the balance sheet.

Charity Care — The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Charity care is not reported as net patient service revenue. The estimated cost of providing charity care was approximately \$82,000 and \$121,000 for the years ended December 31, 2022 and 2021, respectively. The estimated cost of providing charity care is calculated by multiplying the gross uncompensated charges associated with providing charity care with the ratio of costs to gross charges.

Contributions — Unconditional promises to give cash and other assets are recognized as revenue at estimated fair value at the date each promise is received. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as an increase in net assets without donor restrictions. Donor-restricted contributions, whose restrictions are met within the same year as received, are reported as contributions without donor restrictions. Receipts of contributions, which are conditional, are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Income Taxes — The Hospital is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income. The Hospital believes that it does not have any uncertain tax positions that are material to the financial statements.

Statements of Operations and Changes in Net Assets — The statements of operations and changes in net assets include the performance indicator, revenues under expenses. Changes in net assets without donor restrictions which are excluded from revenues under expenses, consistent with industry practice, include unrealized gains and losses on debt securities other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Subsequent Events — The Hospital has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

Change in Accounting Principle — On January 1, 2022, the Hospital adopted ASU 2016-02, Leases, which requires lessees to report most leases as assets and liabilities on their balance sheets and recognize expenses on their statements of operations and changes in net assets in a manner similar to previous accounting guidance. The Hospital adopted ASU 2016-02 using the modified retrospective approach.

Under the modified retrospective approach, prior period amounts were not required to be adjusted. The adoption of ASU 2016-02 did not have a material impact on the financial statements for the year ended December 31, 2022. The Hospital applied the transitional package of practical expedients allowed by ASU 2016-02 relating to the identification, classification, and initial direct costs of leases commencing before the effective date; however, the Hospital did not elect the hindsight transitional practical expedient.

Reclassifications — Certain prior year balances have been reclassified to conform with current year presentation.

2. LIQUIDITY AND AVAILABILITY

The following table reflects the Hospital's financial assets as of December 31, 2022 and 2021, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date because of contractual restrictions or internal board designations. Amounts not available include net assets with donor restrictions and board designated funds that are intended to fund special board initiatives not considered in the annual operating budget.

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 17,130,992	\$ 16,409,656
Patient accounts receivable, net	4,915,772	4,692,513
Short-term investments	<u> </u>	<u>2,119,226</u>
Total financial assets available to management to meet cash needs for general expenditures within one year	<u>\$ 22,046,764</u>	<u>\$ 23,221,395</u>

The Hospital structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Hospital invests cash in excess of weekly requirements in investments.

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following as of December 31:

	2022	2021
Short-term investments		\$ 2,119,226
Investments limited to use	\$ 191,622	30,456
Long-term investments	<u>1,085,907</u>	<u>1,067,070</u>
Total investments	<u>\$ 1,276,629</u>	<u>\$ 3,216,752</u>

The Hospital owns certificates of deposit that are required to be measured at fair value. The Hospital considers cost to be a reasonable estimate of fair value.

The Hospital is required to use a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Hospital has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by Level, within the fair value hierarchy, the Hospital's investments measured at fair value as of December 31:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2022:				
Certificates of deposit	<u>\$ 1,276,629</u>	<u>\$ —</u>	<u>\$ 1,276,629</u>	<u>\$ —</u>
2021:				
Certificates of deposit	<u>\$ 3,216,752</u>	<u>\$ —</u>	<u>\$ 3,216,752</u>	<u>\$ —</u>

4. NET PATIENT SERVICE REVENUE

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

Medicare — The Hospital is designated as a critical access hospital and its clinic as a rural health clinic by Medicare, and are reimbursed on a cost basis, as defined by the Medicare program. The Hospital is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid — Hospital services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Rural health clinic visits are reimbursed using a cost-reimbursement methodology at a tentative rate with final settlement determined on a retrospective basis.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased (decreased) by approximately \$1,025,000 and \$(531,000) during 2022 and 2021, respectively, as the result of prior year settlements and revisions of prior year estimates. The increase in 2022 was primarily due to the Colorado Department of Health Care Policy and Financing completing reconciliation of the rural health clinic Medicaid rates for 2018. Also, the Hospital estimated such rate reconciliations for 2019 and subsequent years. The Medicare and Medicaid programs could be materially modified in future years. Any material changes in the funds provided under these programs would have a correspondingly material effect on the Hospital's results from operations.

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

The State of Colorado has implemented a provider fee on Medicaid providers which generates additional federal matching funds. Supplemental payment revenue and provider fee expense were as follows for the years ended December 31, 2022 and 2021:

	2022	2021
Provider fee supplemental revenue	\$ 6,087,020	\$ 5,564,280
Provider fee expense	<u>(1,560,771)</u>	<u>(1,762,203)</u>
Net excess of provider fee revenue over expense	<u>\$ 4,526,249</u>	<u>\$ 3,802,077</u>

Supplemental revenue amounts are recorded within net patient service revenue and expenses are recorded within operating expenses in the statements of operations and changes in net assets.

The composition of patient service revenue by primary payer is as follows during the years ended December 31, 2022 and 2021:

	2022	2021
Medicaid, including provider fees	\$ 11,853,319	\$ 11,319,938
Medicare	9,870,010	8,617,445
Other third-party payers	17,927,505	15,263,198
Self-pay	<u>150,995</u>	<u>167,450</u>
Total	<u>\$ 39,801,829</u>	<u>\$ 35,368,031</u>

5. PATIENT ACCOUNTS RECEIVABLE

The Hospital grants credit without collateral to its patients, most of who are area residents and are insured under third-party payer agreements. The composition of net patient accounts receivable is as follows as of December 31, 2022 and 2021:

	2022	2021
Medicare	25%	25%
Medicaid	15%	16%
Other third-party payors	50%	44%
Uninsured	<u>10%</u>	<u>15%</u>
Total	<u>100%</u>	<u>100%</u>

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2022 and 2021:

	2022	2021
Buildings and leasehold improvements	\$ 38,478,238	\$ 38,617,098
Equipment	27,476,588	27,131,840
Construction in process	251,369	552,996
Land and land improvements	480,197	480,197
Other	<u>199,210</u>	<u>199,210</u>
Total	66,885,602	66,981,341
Less accumulated depreciation	<u>26,943,547</u>	<u>24,773,872</u>
Property and equipment, net	<u>\$ 39,942,055</u>	<u>\$ 42,207,469</u>

7. NOTES PAYABLE

Notes payable consist of the following as of December 31, 2022 and 2021:

	2022	2021
U.S. United States Department of Agriculture (USDA) Community Facilities Direct loans (see below).	\$ 25,056,894	\$ 25,680,587
Note payable to a bank, maturing June 2049, payable monthly including interest at 4.485%, collateralized by property and improvements. The loan is guaranteed by the USDA.	<u>6,806,955</u>	<u>6,937,693</u>
Total principal balances of notes payable	31,863,849	32,618,280
Less debt issuance costs	<u>697,469</u>	<u>723,247</u>
Total	31,166,380	31,895,033
Less current maturities	<u>772,948</u>	<u>753,536</u>
Long-term notes payable	<u>\$ 30,393,432</u>	<u>\$ 31,141,497</u>

During the year ended December 31, 2019, the Hospital entered into a construction loan agreement which could be drawn on up to \$25,783,000. The loan had an outstanding balance of \$16,160,394 as of December 31, 2020. The construction loan bore interest at the 30-day LIBOR rate plus 2%. In October 2021, the Hospital refinanced its existing debt and incurred additional debt when it closed on three USDA Community Facilities Direct loans totaling \$25,783,000.

The loans have a fixed interest rate of 2.125%, are payable in monthly installments of principal and interest and have a maturity date of October 2051. The loans are secured by the Hospital's deed of trust and the assignment of leases, rents, and revenues.

Aggregate annual maturities of notes payable for the next five years are as follows as of December 31, 2022:

2023	\$ 772,948
2024	790,632
2025	813,422
2026	834,592
2027	856,388

The loan agreements require the Hospital to meet certain financial covenants related to financial ratios and other matters.

The Hospital is required to maintain Debt Service Reserve Funds with the lenders. The balances in these Reserve Funds are \$191,622 and \$30,456 as of December 31, 2022 and 2021, respectively, which are recorded within investments limited as to use in the accompanying balance sheets.

8. LEASES

The Hospital adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-02, *Leases*, effective January 1, 2022. The Hospital has financing leases for equipment. Financing lease right-of-use assets are recorded within property and equipment, net, in the balance sheet. The Hospital determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded in the balance sheets.

The Hospital has lease agreements which require payments for lease and non-lease components and has elected to separate these components for leases that commenced before the effective date of ASU 2016-02. The Hospital elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

Lease costs incurred under the lease agreements are as follows for the year ended December 31, 2022:

Financing lease cost:	
Interest on lease liabilities	\$ 8,513
Amortization of right-of-use assets	<u>193,321</u>
Total	<u>\$ 201,834</u>

Other information:

Cash paid for amounts included in the measurement of lease liability:	
Financing cash flows from financing leases	\$ 198,694

The weighted average remaining lease terms and the weighted average discount rates at December 31, 2022 are as follows:

Weighted average remaining lease term	0.50 years
Weighted average discount rate	5.22%

Undiscounted cash flows for leases as of December 31, 2022 are as follows:

Undiscounted cash flows (2023)	\$ 25,088
Less interest	<u>(176)</u>
Present value of future lease liabilities	24,912
Less current portion of lease liabilities	<u>(24,912)</u>
Long-term lease liabilities	<u>\$ —</u>

Assets under financing lease agreements consist of the following as of December 31:

	2022	2021
Major movable equipment	\$ 291,824	\$ 1,443,276
Less accumulated depreciation	<u>194,974</u>	<u>929,181</u>
Assets under financing lease agreements, net	<u>\$ 96,850</u>	<u>\$ 514,095</u>

9. FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents within its geographic location. The following schedules for the years ended December 2022 and 2021 present expenses by both their nature and their function.

	Healthcare Services	General and Administrative	Total
2022			
Salaries and wages	\$ 16,673,642	\$ 1,095,955	\$ 17,769,597
Purchased services	7,221,403	1,964,008	9,185,411
Medical supplies and other	4,803,900	33,439	4,837,339
Employee benefits	4,105,015	269,822	4,374,837
Depreciation	2,206,775	47,211	2,253,986
Provider fees	1,560,771		1,560,771
Other	<u>2,598,318</u>	<u>207,899</u>	<u>2,806,217</u>
Total expenses	<u>\$ 39,169,824</u>	<u>\$ 3,618,334</u>	<u>\$ 42,788,158</u>
2021			
Salaries and wages	\$ 18,036,053	\$ 1,410,742	\$ 19,446,795
Purchased services	5,950,764	623,472	6,574,236
Employee benefits	4,015,444	314,080	4,329,524
Medical supplies and other	4,209,255	29,434	4,238,689
Depreciation	2,002,033	217,569	2,219,602
Provider fees	1,762,203		1,762,203
Other	<u>2,002,504</u>	<u>282,638</u>	<u>2,285,142</u>
Total expenses	<u>\$ 37,978,256</u>	<u>\$ 2,877,935</u>	<u>\$ 40,856,191</u>

The financial statements report certain categories of expenses that are attributable to more than one program or supporting service of the Hospital. Therefore, these expenses require allocation on a reasonable basis that is consistently applied.

10. RISK MANAGEMENT AND CONTINGENCIES

The Hospital is exposed to various risks of loss. Commercial insurance coverage is purchased for claims arising from such matters.

The Hospital partially self-insures the cost of employee health care benefits as it purchases annual stop-loss insurance coverage for claims in excess of \$30,000 per claim. The estimated health claims

liability is re-evaluated periodically to take into consideration recently settled claims, frequency of claims and other factors and include an accrual for claims that have been incurred but not reported. The estimated health claims liability of \$577,988 and \$418,000 as of December 31, 2022 and 2021, respectively, is included in accrued salaries and other expenses in the accompanying balance sheets.

The Hospital maintains professional liability insurance through a claims-made type of commercial insurance policy. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based on the Hospital's claims experience, no accrual has been made for malpractice claims as of December 31, 2022 and 2021. It is reasonably possible that this estimate could change materially in the near term.

The Hospital is involved in certain legal actions in the normal course of business. Management believes that the ultimate resolution with respect to these matters will not materially affect the financial position of the Hospital.

11. RETIREMENT PLANS

The Hospital provides two defined contribution retirement plans for the benefit of its employees, a 403(b) plan and a 401(k) plan. Both plans cover substantially all employees of the Hospital. Under the 403(b) plan, participants may elect to reduce their compensation and have such amounts contributed to the plan. Employer contributions are made to the 401(k) plan. Employee benefit expense under this plan for the years ended December 31, 2022 and 2021 was \$317,058 and \$316,721, respectively.

12. COVID-19 PANDEMIC AND CARES ACT FUNDING

Patient volumes and related revenues have been significantly affected by the COVID-19 pandemic as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses. Admissions and elective surgeries at the Hospital's facilities were periodically banned or limited as a precautionary measure. The Hospital has also incurred additional costs relating to the COVID-19 pandemic.

In response to the COVID-19 outbreak the Coronavirus Aid, Relief, and Economic Security (CARES) Act, was signed into law on March 27, 2020. The CARES Act authorizes funding to hospitals and other health care providers to be distributed through the Provider Relief Fund. Provider Relief Fund payments are to be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the recipient for health care related expenses or lost revenues attributed to COVID-19. Provider Relief Fund payments received and not used for these purposes by various deadlines are required to be refunded.

The Hospital was not awarded any provider relief funds during the year ended December 31, 2022. The Hospital was awarded \$2,152,256 and \$4,422,188 of provider relief funds during the years ended December 31, 2021 and 2020, respectively. The Hospital has recognized \$1,558,328 and \$2,719,572 within other operating revenue relating to the provider relief funds in the accompanying statement of operations and changes in net assets for the years ended December 31, 2022 and 2021, respectively. Refundable advance liabilities of \$1,558,328 were recorded in the accompanying balance sheet as of December 31, 2021. There are no refundable advance liabilities as of December 31, 2022.

The Hospital received \$2,304,087 of Medicare advance payments in 2020 pursuant to an amendment to the Medicare advance payment program included in the CARES Act. Such advance payments are recouped commencing one year from issuance of the payments. 25% of monthly Medicare payments for patient service are withheld for the first eleven months of recoupment, 50% withheld monthly during the following six months and any remaining balance due at the end of this period. The Hospital recorded the remaining amount to be recouped during 2022 of \$857,029 as a current liability in the accompanying balance sheet as of December 31, 2021. There is no remaining balance as of December 31, 2022.

Due to the evolving nature of the COVID-19 pandemic, the ultimate impact to the Hospital and its financial condition is presently unknown.