

# Kit Carson County Health Service District

Basic Financial Statements and  
Independent Auditors' Report

December 31, 2023 and 2022

**Kit Carson County Health Service District  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Kit Carson County Health Service District  
Burlington, Colorado

### **Opinion**

We have audited the accompanying financial statements of Kit Carson County Health Service District (the District) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

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

Management is responsible for the preparation and fair presentation of these 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 the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

### **Required Supplementary Information**

Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of budget and actual revenues and expenses are presented for purposes of additional analysis and are 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.

*D3A PLLC*

Spokane Valley, Washington

April 25, 2024

**Kit Carson County Health Service District**  
**Statements of Net Position**  
**December 31, 2023 and 2022**

<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 6,210,104	\$ 8,709,538
Investments	10,223,565	5,929,034
Receivables:		
Patient accounts	2,527,521	3,022,713
Property taxes	644,739	633,993
Estimated third-party payor settlements	256,001	1,026,000
Cash and cash equivalents held for debt service	682,505	525,477
Inventories	633,495	477,087
Prepaid expenses and other current assets	419,536	389,815
Total current assets	21,597,466	20,713,657
<i>Noncurrent assets</i>		
Cash and cash equivalents board designated for capital acquisitions	-	375,870
Cash and cash equivalents restricted by bond indenture for capital projects	2,645,000	-
Cash and cash equivalents held by trustee for debt service reserve	1,000,000	1,086,988
Capital assets, net	4,545,426	4,988,718
Total noncurrent assets	8,190,426	6,451,576
<b>Total assets</b>	<b>\$ 29,787,892</b>	<b>\$ 27,165,233</b>

*See accompanying notes to basic financial statements.*

**Kit Carson County Health Service District  
Statements of Net Position (Continued)  
December 31, 2023 and 2022**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>2023</b>	<b>2022</b>
<i>Current liabilities</i>		
Accounts payable	\$ 1,001,893	\$ 740,307
Accrued compensation and related liabilities	781,148	529,763
Current maturities of long-term debt	460,000	495,000
Current maturities of lease liabilities	154,178	176,983
Estimated third-party payor settlements	2,635,000	-
Medicare accelerated payments	-	2,060,821
Wound care liability	-	2,635,000
Interest payable	222,500	295,144
Total current liabilities	5,254,719	6,933,018
<i>Noncurrent liabilities</i>		
Long-term debt, net of current maturities	9,540,000	8,250,000
Lease liabilities, net of current maturities	422,073	243,718
Total noncurrent liabilities	9,962,073	8,493,718
Total liabilities	15,216,792	15,426,736
<i>Deferred inflows of resources, property tax levy</i>	644,739	633,993
Total liabilities and deferred inflows of resources	15,861,531	16,060,729
<i>Net position</i>		
Net investment in capital assets	(3,608,325)	(4,472,127)
Unrestricted	15,852,181	15,051,154
Restricted for debt service	1,682,505	525,477
Total net position	13,926,361	11,104,504
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 29,787,892</b>	<b>\$ 27,165,233</b>

*See accompanying notes to basic financial statements.*

**Kit Carson County Health Service District**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2023 and 2022**

	2023	2022
<i>Operating revenues</i>		
Net patient service revenue	\$ 24,058,307	\$ 20,155,541
Other	126,257	271,675
<b>Total operating revenues</b>	<b>24,184,564</b>	<b>20,427,216</b>
<i>Operating expenses</i>		
Salaries and wages	7,236,899	5,822,524
Employee benefits	1,663,680	1,220,040
Professional fees, other purchased services, and provider fees	8,044,629	9,327,240
Supplies	1,905,966	1,562,800
Depreciation and amortization	984,282	1,101,311
Insurance	273,277	155,466
Utilities	263,099	290,153
Provider fees	706,976	564,753
Other	645,318	554,357
<b>Total operating expenses</b>	<b>21,724,126</b>	<b>20,598,644</b>
<i>Operating income (loss)</i>	<b>2,460,438</b>	<b>(171,428)</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	681,588	680,519
CARES Act Provider Relief Fund	-	670,126
Wound care payback	-	(935,580)
Contributions	46,949	26,730
Interest income	339,580	110,611
Bond issuance cost	(195,000)	-
Interest expense	(511,698)	(623,474)
<b>Total nonoperating revenues, net</b>	<b>361,419</b>	<b>(71,068)</b>
Change in net position	2,821,857	(242,496)
Net position, beginning of year	11,104,504	11,347,000
<b>Net position, end of year</b>	<b>\$ 13,926,361</b>	<b>\$ 11,104,504</b>

*See accompanying notes to basic financial statements.*

**Kit Carson County Health Service District  
Statements of Cash Flows  
Years Ended December 31, 2023 and 2022**

	2023	2022
<b><i>Change in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 25,323,498	\$ 20,600,515
Cash received from other revenue	126,257	271,675
Payments to and on behalf of employees	(8,649,194)	(7,002,942)
Payments to suppliers and contractors	(11,763,808)	(12,735,935)
Net cash from operating activities	<b>5,036,753</b>	1,133,313
<i>Cash flows from noncapital financing activities</i>		
Taxation for operations	681,588	680,519
Proceeds from contributions	46,949	26,730
Repayments of Medicare accelerated payments	(2,060,821)	(1,712,782)
Net cash from noncapital financing activities	<b>(1,332,284)</b>	(1,005,533)
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(182,274)	(292,770)
Principal paid on lease liabilities	(203,166)	(204,366)
Principal paid on long-term debt	(8,745,000)	(465,000)
Proceeds from issuance of bonds payable	10,000,000	-
Payments for bond issuance costs	(195,000)	-
Interest paid on long-term debt and lease liabilities	(584,342)	(639,168)
Net cash from capital and related financing activities	<b>90,218</b>	(1,601,304)
<i>Cash flows from investing activities</i>		
Proceeds from the sale of investments	2,086,432	2,242,124
Purchase of investments	(6,380,963)	(2,086,432)
Interest	339,580	110,611
Net cash from investing activities	<b>(3,954,951)</b>	266,303
Net change in cash and cash equivalents	<b>(160,264)</b>	(1,207,221)
Cash and cash equivalents, beginning of year	<b>10,697,873</b>	11,905,094
<b>Cash and cash equivalents, end of year</b>	<b>\$ 10,537,609</b>	<b>\$ 10,697,873</b>

*See accompanying notes to basic financial statements.*

**Kit Carson County Health Service District  
Statements of Cash Flows (Continued)  
Years Ended December 31, 2023 and 2022**

	2023	2022
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents in current assets	\$ 6,210,104	\$ 8,709,538
Cash and cash equivalents held for debt service	682,505	525,477
Cash and cash equivalents board designated for capital acquisitions	-	375,870
Cash and cash equivalents restricted by bond indenture for capital projects	2,645,000	-
Cash and cash equivalents held by trustee for debt service reserve	1,000,000	1,086,988
<b>Total cash and cash equivalents</b>	<b>\$ 10,537,609</b>	<b>\$ 10,697,873</b>

***Reconciliation of Operating Income (Loss) to Net Cash  
From Operating Activities***

Operating income (loss)	\$ 2,460,438	\$ (171,428)
<i>Adjustments to reconcile operating income (loss) to net cash from operating activities:</i>		
Depreciation and amortization	984,282	1,101,311
Provision for bad debts	1,877,742	2,729,033
(Increase) decrease in assets:		
Receivables:		
Patient accounts receivable, net	(1,382,550)	(2,893,059)
Estimated third-party payor settlements	769,999	609,000
Inventories	(156,408)	10,906
Prepaid expenses and other current assets	(29,721)	(226,000)
Increase (decrease) in liabilities:		
Accounts payable	261,586	(66,072)
Wound care liability	(2,635,000)	-
Accrued compensation and related liabilities	251,385	39,622
Estimated third-party payor settlements	2,635,000	-
<b>Net cash from operating activities</b>	<b>\$ 5,036,753</b>	<b>\$ 1,133,313</b>

***Noncash Capital Financing Activities***

The District recorded \$358,715 and \$298,648 of right-of-use assets and lease liabilities in 2023 and 2022, respectively.

*See accompanying notes to basic financial statements.*

**Kit Carson County Health Service District  
Notes to Basic Financial Statements  
Years Ended December 31, 2023 and 2022**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Kit Carson County Health Service District (the District) is a 19-bed critical access hospital located in Burlington, Colorado and rural health clinics located in Burlington and Stratton, Colorado. The District provides healthcare services to Kit Carson County and surrounding areas. The District was created in 1996 as a political subdivision of the state of Colorado. As a political subdivision of the state of Colorado, the District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The District is governed by a Board of Directors consisting of seven members elected by the residents of the District. The District is not a component unit of another government entity. The District does not have any material component units.

**b. Summary of Significant Accounting Policies**

*Use of estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows of resources, 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.

*Enterprise fund accounting* – The District’s accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

*Cash and cash equivalents* – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

*Inventories* – Inventories of medical, pharmaceuticals, and other supplies are stated at cost, determined using the first-in, first-out method.

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

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

**Capital assets** – It is the District’s policy to capitalize property and equipment over \$5,000 and a useful life of at least two years; lesser amounts are expensed. Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets other than land are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under lease liabilities and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense.

Estimated useful lives are as follows:

Land improvements	10 to 20 years
Buildings and improvements	5 to 40 years
Fixed equipment	3 to 25 years
Major movable equipment	3 to 20 years
Lease right-of-use – major movable equipment	4 to 6 years

Lease agreements do not contain material residual value guarantees or material restrictive covenants.

**Compensated absences** – The District’s policies permit most employees to earn paid time off (PTO) for vacation, holidays, and sicknesses. The expense and the related liability are recognized as vacation benefits as earned. Compensated absence liabilities are computed using the regular pay rate in effect at the statement of net position dates plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

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

**Operating revenues and expenses** – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

**Restricted resources** – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

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

**Subsequent events** – The District has evaluated subsequent events and transactions through April 25, 2024, the date on which the financial statements were available to be issued.

**Change in accounting principles** – In May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-of-use subscription asset — an intangible asset — and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. The District adopted Statement No. 96 during the year ended December 31, 2023. The implementation of Statement No. 96 had no effect on the District’s financial statements.

**2. Deposits and Investments:**

**Custodial credit risk** – Custodial credit risk is the risk that, in the event of a depository institution failure, the District’s deposits may not be returned.

The Colorado Public Deposit Protection Act (CPDPA) requires financial institutions to collateralize any uninsured public deposits. The bank balance at each institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Any excess of deposits over the FDIC limit not insured is covered by collateral pledged by the financial institution in accordance with the CPDPA.

**Investments** – Colorado State statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, banker’s acceptance notes, commercial paper, repurchase agreements, money market funds, and guaranteed investment contracts. All investments must be held by the District, in its name, or in custody of a third-party on behalf of the local government.

**Concentration of credit risk** – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**2. Deposits and Investments (continued):**

*Interest rate risk* – The possibility that an interest rate change could adversely affect an investment’s fair value. The District does not have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation of inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The District’s certificates of deposit are valued using observable inputs from similar investments (Level 2 input) as \$10,223,565 and \$5,929,034 for the years ended December 31, 2023 and 2022, respectively.

**3. Patient Accounts Receivable:**

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

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**3. Patient Accounts Receivable (continued):**

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

Patient accounts receivable reported as current assets by the District were as follows:

	<b>2023</b>	<b>2022</b>
Receivable from patients and their insurance carriers	\$ 3,210,421	\$ 3,553,218
Receivable from Medicare	455,436	774,946
Receivable from Medicaid	133,664	93,550
Total patient accounts receivable	<b>3,799,521</b>	4,421,714
Less allowance for uncollectible accounts	<b>(1,272,000)</b>	(1,399,001)
<b>Patient accounts receivable, net</b>	<b>\$ 2,527,521</b>	<b>\$ 3,022,713</b>

**Kit Carson County Health Service District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2023 and 2022**

**4. Capital Assets:**

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2022	Additions	Retirements	Transfers	Balance December 31, 2023
<i>Capital assets not being depreciated or amortized</i>					
Land	\$ 176,836	\$ -	\$ -	\$ -	\$ 176,836
Construction in progress	246,729	-	-	(85,181)	161,548
Total capital assets not being depreciated	423,565	-	-	(85,181)	338,384
<i>Capital assets being depreciated and amortized</i>					
Land improvements	36,420	-	-	-	36,420
Buildings and improvements	12,301,789	14,058	-	17,249	12,333,096
Fixed equipment	2,771,839	50,067	-	-	2,821,906
Major movable equipment	4,757,750	118,150	-	67,932	4,943,832
Lease right-of-use assets					
Major movable equipment	911,661	358,715	-	-	1,270,376
Total lease right-of-use assets	911,661	358,715	-	-	1,270,376
Total capital assets being depreciated or amortized	20,779,459	540,990	-	85,181	21,405,630
<i>Less accumulated depreciation and amortization for</i>					
Land improvements	27,377	1,085	-	-	28,462
Buildings and improvements	9,279,976	491,719	-	-	9,771,695
Fixed equipment	2,452,498	54,505	-	-	2,507,003
Major movable equipment	3,945,765	237,485	-	-	4,183,250
Lease right-of-use assets					
Major movable equipment	508,690	199,488	-	-	708,178
Total lease right-of-use assets	508,690	199,488	-	-	708,178
Total accumulated depreciation or amortized	16,214,306	984,282	-	-	17,198,588
Total capital assets being depreciated and amortized, net	4,565,153	(443,292)	-	85,181	4,207,042
<b>Capital assets, net</b>	<b>\$ 4,988,718</b>	<b>\$ (443,292)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,545,426</b>

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**4. Capital Assets (continued):**

	Balance December 31, 2021	Additions	Retirements	Transfers	Balance December 31, 2022
<i>Capital assets not being depreciated or amortized</i>					
Land	\$ 176,836	\$ -	\$ -	\$ -	\$ 176,836
Construction in progress	-	246,729	-	-	246,729
Total capital assets not being depreciated or amortized	176,836	246,729	-	-	423,565
<i>Capital assets being depreciated or amortized</i>					
Land improvements	36,420	-	-	-	36,420
Buildings and improvements	12,289,152	12,637	-	-	12,301,789
Fixed equipment	2,771,839	-	-	-	2,771,839
Major movable equipment	5,337,371	33,392	-	(613,013)	4,757,750
Lease right-of-use assets					
Major movable equipment	-	298,648	-	613,013	911,661
Total lease right-of-use assets	-	298,648	-	613,013	911,661
Total capital assets being depreciated or amortized	20,434,782	344,677	-	-	20,779,459
<i>Less accumulated depreciation or amortization for</i>					
Land improvements	25,459	1,918	-	-	27,377
Buildings and improvements	8,713,664	566,312	-	-	9,279,976
Fixed equipment	2,381,854	70,644	-	-	2,452,498
Major movable equipment	3,992,018	263,961	-	(310,214)	3,945,765
Lease right-of-use assets					
Major movable equipment	-	198,476	-	310,214	508,690
Total lease right-of-use assets	-	198,476	-	310,214	16,214,306
Total accumulated depreciation or amortized	15,112,995	1,101,311	-	-	16,214,306
Total capital assets being depreciated or amortized, net	5,321,787	(756,634)	-	-	4,565,153
<b>Capital assets, net</b>	<b>\$ 5,498,623</b>	<b>\$ (509,905)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,988,718</b>

Construction in progress at December 31, 2023, consisted of costs associated with hospital and clinic flooring, with no significant remaining costs to complete. The clinic flooring was completed in February 2024 and the hospital flooring is expected to be completed in June 2024.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**5. Long-term Debt and Lease Liabilities:**

A schedule of changes in the District’s long-term debt and lease liabilities follows:

	Balance December 31, 2022	Additions	Reductions	Balance December 31, 2023	Amounts Due Within One Year
2007 revenue bonds	\$ 8,745,000	\$ -	\$ (8,745,000)	\$ -	\$ -
2023 revenue bonds	-	10,000,000	-	10,000,000	460,000
Lease liabilities	420,701	358,716	(203,166)	576,251	154,178
<b>Total long-term debt and lease liabilities</b>	<b>\$ 9,165,701</b>	<b>\$ 10,358,716</b>	<b>\$ (8,948,166)</b>	<b>\$ 10,576,251</b>	<b>\$ 614,178</b>

  

	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Amounts Due Within One Year
2007 revenue bonds	\$ 9,210,000	\$ -	\$ (465,000)	\$ 8,745,000	\$ 495,000
Lease liabilities	326,431	298,636	(204,366)	420,701	176,983
<b>Total long-term debt and lease liabilities</b>	<b>\$ 9,536,431</b>	<b>\$ 298,636</b>	<b>\$ (669,366)</b>	<b>\$ 9,165,701</b>	<b>\$ 671,983</b>

The terms and due dates of the District’s long-term debt and lease liabilities are as follows:

- Health Care Facilities Revenue Bonds Series 2007 (the 2007 Bonds), in the original amount of \$12,810,000, dated November 2007. The 2007 Bonds were paid off with the issuance of the 2023 Revenue Bonds.
- Health Care Facilities Revenue Bonds Series 2023 (the 2023 Bonds), in the original amount of \$10,000,000 dated February 2023. The bonds are payable annually on January 1, in varying principal installments from \$460,000 to \$940,000, plus interest at 4.45 percent, payable through January 2037. The 2023 Bonds were issued to refinance the 2007 Bonds and provide funding for a future construction project. The refunded portion of the debt issued will reduce debt services payment for the District by approximately \$2,000,000. These bonds are secured by the District’s net revenues.

The bond resolution requires, among other things, the establishment of a Reserve Fund to be held by the issuer for the purpose of paying principal and interest on the bonds when sufficient monies are unavailable in the Senior Bond Fund into which the loan repayments are deposited in order to pay the principal and interest on the bonds.

Terms of the 2023 Bonds place limits on the incurrence of additional borrowings. Also, the provisions of the indenture related to the 2023 Bonds contain covenants pertaining to reporting requirements, current ratio, debt service coverage ratio, and maintenance of days cash on hand.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**5. Long-term Debt and Lease Liabilities (continued):**

- Lease liabilities are due in monthly installments including principal and interest at varying amounts from \$304 to \$10,789, including interest at varying rates from 2.50 percent to 7.21 percent through 2033; collateralized by related equipment.

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

<b>Years Ending December 31,</b>	<b>Long-term Debt</b>		<b>Lease Liabilities</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2024	\$ 460,000	\$ 434,765	\$ 154,178	\$ 27,683
2025	555,000	412,181	128,015	20,397
2026	580,000	386,927	131,507	13,840
2027	610,000	360,450	104,900	7,113
2028	635,000	332,749	57,651	1,402
2029-2033	3,625,000	1,203,836	-	-
2034-2037	3,535,000	322,958	-	-
	<b>\$ 10,000,000</b>	<b>\$ 3,453,866</b>	<b>\$ 576,251</b>	<b>\$ 70,435</b>

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**6. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District has not changed its charity care or uninsured discount policies during the years ended December 31, 2023 or 2022, however in 2022, the District wrote off several accounts causing an increase to provisions for bad debts in that year. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources is as follows:

	<b>2023</b>	<b>2022</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 9,806,013	\$ 8,716,073
Medicaid	2,709,869	2,638,586
Other third-party payors	8,098,962	6,458,619
Patients	1,835,007	1,661,091
Supplemental payments	3,708,818	3,533,317
	<b>26,158,669</b>	<b>23,007,686</b>
Less:		
Charity care	222,620	123,112
Provision for bad debt	1,877,742	2,729,033
<b>Net patient service revenue</b>	<b>\$ 24,058,307</b>	<b>\$ 20,155,541</b>

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**6. Net Patient Service Revenue (continued):**

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

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$83,000 and \$289,000 in the years ended December 31, 2023 and 2022, respectively, due to differences between original estimates and final settlements or revised estimates for all settlements.

The Colorado Department of Health Care Policy and Financing (the State) reconciles the District's Medicaid rural health care clinic rate on a retrospective basis. As of the report date, the State had reconciled the rate through 2018.

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

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2023 and 2022, were approximately \$141,000 and \$92,000, respectively. The District received no gifts or grants to subsidize the cost of caring for charity care patients in 2023 or 2022.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**7. Property Taxes:**

The Kit Carson County Treasurer acts as an agent to assess and collect property taxes levied in the county for all taxing authorities. Property taxes are levied and assessed on January 1 of the prior year on property values assessed as of May 1 of the prior year. Taxes are due in two equal amounts by April 30 and February 28, or all may be paid by February 28. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the District. The assessed property is subject to lien on the levy date, therefore no allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates. A deferred inflow of resources and a receivable were recorded at December 31, 2023 and 2022, for taxes levied for 2023 and 2022, respectively.

For 2023, the District's regular tax levy was \$3.000 per \$1,000 on a total assessed valuation of \$214,912,954, for a total regular levy of \$644,739. For 2022, the District's regular tax levy was \$3.000 per \$1,000 on a total assessed valuation of \$211,331,161, for a total regular levy of \$633,993.

The District paid \$19,000 in both 2023 and 2022, respectively, to the Kit Carson County Treasurer for assessment and collection of the tax levy.

**8. Defined Contribution Plan:**

The District participates in the Colorado County Officials and Employee Retirement Association, a defined contribution plan (the 457(b) Plan), covering all employees hired subsequent to January 1, 1984. The 457(b) Plan covers substantially all of the District's employees who have reached age 18. Participants may contribute a percentage of their compensation up to certain limits specified by the Internal Revenue Code. The District also has the discretion to make profit-sharing contributions as determined by the Board of Directors. Participants are immediately fully vested in their own contributions.

The District also participates in the Colorado Retirement Association Retirement Plan and Trust Agreement (the 401(a) Plan) into which the District and participating employees are required to contribute 3 percent of gross regular wages. Employees may contribute additional amounts to the 401(a) Plan up to the maximum allowed under the Internal Revenue Code. Employees vest in employer contributions and related earnings over a five-year period. Benefit provisions are contained in the Plan document and were established and can be amended by the District's Board of Directors and management. The District also has the discretion to make profit-sharing contributions as determined by the Board of Directors. The discretionary contributions are allocated to participants' accounts in the 401(a) Plan. Participants become fully vested in the District's contributions after five years of service.

The District administers and has the authority to amend both the 457(b) Plan and the 401(a) Plan.

Plan participants contributed approximately \$111,000 and \$54,000, for the years ended December 31, 2023 and 2022, respectively, to the 457(b) Plan.

Plan participants contributed approximately \$187,000 and \$120,000 for the years ended December 31, 2023 and 2022, respectively, to the 401(a) Plan. The District made matching contributions to the 401(a) Plan of approximately \$185,000 and \$110,000 for the years ended December 31, 2023 and 2022, respectively.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**9. Contingencies and Commitments:**

***Medical malpractice claims*** – The District has professional liability insurance coverage with COPIC Insurance Company. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year, or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has no deductible per claim.

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

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

***Tax, spending, and debt limitations*** – At the November 3, 1992, general election, Colorado voters approved an amendment to the Colorado Constitution, Article X, Section 20, commonly known as the Taxpayer’s Bill of Rights (TABOR). TABOR was effective December 31, 1992, and its provisions limit government taxes, spending revenues, and debt without electoral approval.

TABOR, by its terms, applies to local governments such as special districts but excludes “enterprises,” which are defined as (1) a government-owned business, (2) authorized to issue its own debt, and (3) receives less than 10 percent of its annual revenue in grants from all state and local governments. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of TABOR. However, the District has made certain interpretations of TABOR’s language in order to determine its compliance.

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

***Federal program overpayments*** – During 2021, the District discovered it had been overpaid by federal programs for its wound care and hyperbaric oxygen therapy services dating back to August 2018. The District self-reported an estimate of its overpayments.

This issue was settled with the Office of Inspector General for approximately \$3,094,000, of which approximately \$459,000 was previously refunded. The remaining amount of approximately \$2,635,000 was paid in full in May 2023.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2023 and 2022**

**10. Concentration of Credit Risk:**

*Patient accounts receivable* – The District grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The following is the mix of receivables from patients and third-party payors reported by the District:

	<b>2023</b>	<b>2022</b>
Medicare	<b>25 %</b>	22 %
Medicaid	<b>8</b>	5
Other third-party payors	<b>28</b>	30
Patients	<b>39</b>	43
	<b>100 %</b>	100 %

*Physicians* – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on District operations.

**11. Budget and Actual Revenues and Expenses:**

The District overspent its approved budget by \$1,558,550 in 2023.

**SUPPLEMENTARY INFORMATION**

**Kit Carson County Health Service District  
Schedule of Budget and Actual Revenues and Expenses  
Year Ended December 31, 2023**

	2023	Preliminary and Final Approved Budget	Favorable (Unfavorable) Variance
<i>Operating revenues</i>			
Net patient service revenue	\$ 24,058,307	\$ 19,420,432	\$ 4,637,875
Other	126,257	125,516	741
<b>Total operating revenues</b>	<b>24,184,564</b>	19,545,948	4,638,616
<i>Operating expenses</i>			
Salary, wages, and employee benefits	8,900,579	10,794,515	1,893,936
Professional fees, other purchased services, and provider fees	8,751,605	5,009,678	(3,741,927)
Supplies	1,905,966	1,726,149	(179,817)
Depreciation and amortization	984,282	1,162,744	178,462
Insurance	273,277	160,037	(113,240)
Utilities	263,099	294,010	30,911
Other	645,318	1,090,359	445,041
<b>Total operating expenses</b>	<b>21,724,126</b>	20,237,492	(1,486,634)
<i>Operating income (loss)</i>	<b>2,460,438</b>	(691,544)	3,151,982
<i>Nonoperating revenues (expenses)</i>			
Taxation for operations	681,588	633,993	47,595
Contributions	46,949	503,146	(456,197)
Interest income	339,580	38,771	300,809
Bond issuance cost	(195,000)	-	(195,000)
Interest expense	(511,698)	(634,782)	123,084
<b>Total nonoperating revenues, net</b>	<b>361,419</b>	541,128	(179,709)
Excess revenues over (under) expenses before capital contributions	2,821,857	(150,416)	2,972,273
<i>Capital contributions</i>	-	254,730	(254,730)
<b>Change in net position</b>	<b>\$ 2,821,857</b>	<b>\$ 104,314</b>	<b>\$ 2,717,543</b>

See accompanying independent auditors' report.