



Financial Statements

December 31, 2023 and 2022

Kremmling Memorial Hospital District

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Independent Auditor's Report

The Board of Trustees
Kremmling Memorial Hospital District
Kremmling, Colorado

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Kremmling Memorial Hospital District dba Middle Park Health (the Hospital), which comprise the statements of net position as of December 31, 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Hospital'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 respective financial position of the Hospital, as of December 31, 2023, and the respective changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital 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.

Other Matter

The financial statements of Kremmling Memorial Hospital District, dba Middle Park Health, for the year ended December 31, 2022, were audited by another auditor, who expressed an unmodified opinion on those statements on May 16, 2023.

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; this includes 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 Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital'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 Hospital'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 omitted 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 opinions on the basic financial statements are not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The budget to actual schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the budget to actual schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 5, 2024, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Denver, Colorado
June 5, 2024

Kremmling Memorial Hospital District
Statements of Net Position – Assets and Deferred Outflow of Resources
December 31, 2023 and 2022

	2023	2022
Assets and Deferred Outflow of Resources		
Current Assets		
Cash and cash equivalents	\$ 18,330,899	\$ 17,543,268
Receivables		
Patient, net of estimated uncollectibles of approximately \$3,529,000 in 2023 and \$3,035,000 in 2022	12,694,426	9,383,270
Estimated third-party payor settlements	-	2,070,047
Property tax and other	1,355,201	1,353,101
Stop loss receivable	-	1,145,056
Supplies	1,320,704	1,002,587
Assets held on behalf of others	637,776	282,450
Prepaid expenses and other	217,354	288,192
Total current assets	34,556,360	33,067,971
Noncurrent Cash		
Restricted by trustee for debt reserve	2,539,253	2,739,273
Board designated	1,444,641	996,496
Total noncurrent cash	3,983,894	3,735,769
Capital Assets		
Capital assets not being depreciated	6,863,026	6,256,100
Depreciable capital assets, net	30,339,059	30,854,715
Right to use leased assets, net	1,243,185	2,040,505
Total capital assets, net	38,445,270	39,151,320
Total assets	76,985,524	75,955,060
Deferred Outflow of Resources		
Refunding costs	546,183	567,123
Total assets and deferred outflow of resources	\$ 77,531,707	\$ 76,522,183

Kremmling Memorial Hospital District
Statements of Net Position – Liabilities, Deferred Inflow of Resources, and Net Position
December 31, 2023 and 2022

	2023	2022
Liabilities, Deferred Inflow of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 3,366,403	\$ 3,343,235
Current maturities of leases	502,548	485,729
Accounts payable		
Trade	2,148,614	2,455,667
Estimated third-party payor settlements	670,722	682,000
Patient refunds payable	542,985	525,813
Accrued salaries and wages	2,425,333	2,454,822
Amounts due on behalf of others	534,118	520,228
	<u>10,190,723</u>	<u>10,467,494</u>
Noncurrent Liabilities		
Long-term debt, less current maturities	37,129,327	38,005,264
Leases, less current maturities	1,118,577	1,560,279
	<u>38,247,904</u>	<u>39,565,543</u>
Total liabilities	<u>48,438,627</u>	<u>50,033,037</u>
Deferred Inflow of Resources		
Property taxes	1,252,795	968,071
	<u>49,691,422</u>	<u>51,001,108</u>
Net Position		
Net investment in capital assets	(3,671,585)	(4,243,187)
Restricted, expendable	2,539,253	2,739,273
Unrestricted	28,972,617	27,024,989
	<u>27,840,285</u>	<u>25,521,075</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 77,531,707</u>	<u>\$ 76,522,183</u>

Kremmling Memorial Hospital District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$4,060,000 in 2023 and \$3,159,000 in 2022)	\$ 52,190,753	\$ 50,020,354
Other revenue	511,246	278,320
Total operating revenues	52,701,999	50,298,674
Operating Expenses		
Salaries and wages	21,169,075	21,274,977
Employee benefits	5,790,964	6,088,590
Professional fees and purchased services	13,314,261	10,397,438
Supplies	4,603,266	5,137,142
Insurance	402,061	300,755
Depreciation and amortization	2,378,645	2,143,881
Provider fees	1,110,840	1,269,540
Other	1,686,647	1,831,320
Total operating expenses	50,455,759	48,443,643
Operating Income (Loss)	2,246,240	1,855,031
Nonoperating Revenues (Expenses)		
Property tax revenue	1,025,083	1,032,530
Noncapital contributions and grants	342,982	-
Provider Relief Funds	-	1,969,812
Forgiveness of Paycheck Protection Program loan	-	2,534,874
Interest expense	(1,285,837)	(1,266,507)
Loss on disposal of assets	(9,258)	-
Nonoperating revenues (expenses), net	72,970	4,270,709
Change in Net Position	2,319,210	6,125,740
Net Position, Beginning of Year	25,521,075	19,395,335
Net Position, End of Year	\$ 27,840,285	\$ 25,521,075

Kremmling Memorial Hospital District

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Cash received from and on behalf of patients	\$ 50,938,366	\$ 48,567,979
Cash payments to and on behalf of employees	(26,958,466)	(28,109,159)
Cash payments to supplies and other contractors	(22,026,733)	(17,032,780)
Other operating receipts	1,656,302	613,700
Net Change In Cash From Operating Activities	3,609,469	4,039,740
Non-Capital Related Financing Activities		
Property tax receipts	1,307,707	1,048,205
Provider Relief Funds	-	1,062,270
Repayments of CMS Advanced Payments	-	(2,655,959)
Non-capital contributions and grants	411,629	-
Net Change In Cash From (Used For) Noncapital Related Financing Activities:	1,719,336	(545,484)
Capital and Related Financing Activities		
Construction and purchase of capital assets	(1,672,595)	(1,456,392)
Principal payments on long-term debt	(3,352,769)	(822,706)
Proceeds from issuance of long-term debt	2,500,000	-
Cash paid for interest on long-term debt	(1,264,897)	(1,239,631)
Principal payments on lease liabilities	(424,883)	(596,311)
Cash paid for interest on lease liabilities	(96,286)	(70,791)
Net Change In Cash Used For Capital and Related Financing Activities	(4,311,430)	(4,185,831)
Investing Activity		
Investment income	18,381	27,191
Change in Cash and Cash Equivalents	1,035,756	(664,384)
Cash and Cash Equivalents, Beginning of Year	21,279,037	21,943,421
Cash and Cash Equivalents, End of Year	\$ 22,314,793	\$ 21,279,037

Kremmling Memorial Hospital District

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents in current assets	\$ 18,330,899	\$ 17,543,268
Restricted by trustee for debt reserve	2,539,253	2,739,273
Board designated	1,444,641	996,496
Total cash and cash equivalents	\$ 22,314,793	\$ 21,279,037
Reconciliation of Operating Loss to Net Cash From Operating Activities		
Operating Income (loss)	\$ 2,246,240	\$ 2,092,809
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization	2,378,645	2,143,881
Provision for bad debts	4,059,854	3,158,601
Change in assets and liabilities		
Patient receivables, net of provision for bad debts	(7,371,010)	(4,423,643)
Estimated third-party payor settlements	2,058,769	(651,146)
Stop loss receivable	1,145,056	(1,145,056)
Supplies	(318,117)	112,013
Assets held on behalf of others	(355,326)	(203,203)
Prepaid expenses and other	70,838	360,202
Accounts payable	(307,053)	1,730,005
Patient refunds payable	17,172	525,813
Amounts due on behalf of others	13,890	-
Accrued expenses	(29,489)	339,464
Net Change In Cash From Operating Activities	\$ 3,609,469	\$ 4,039,740

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

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

Reporting Entity

The Hospital has an 18-bed critical care hospital, located in Kremmling, Colorado; a 7-bed critical care hospital, located in Granby, Colorado; and rural health clinics located in Kremmling, Granby, Grand Lake, Walden, and Winter Park, Colorado. The Hospital provides healthcare services to Grand, Summit, and Jackson Counties. The Hospital District was created in 1973 as a political subdivision of the state of Colorado. As a political subdivision of the state of Colorado, the Hospital District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Hospital is governed by a Board of Directors consisting of five members elected by the residents of the Hospital District. The Hospital is not a component unit of another government entity. The Hospital does not have any material component units.

The Hospital provides management services for the operation of Cliffview Assisted Living Center (Cliffview) under a management contract with the Grand County Housing Authority. Cliffview is not considered a component unit of the Hospital. For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

Measurement Focus and Basis of Accounting

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

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

Basis of Presentation

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

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations, lease liabilities, and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted Net Position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

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

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include deposits and highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient Receivables

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

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

Property Tax Receivable and Revenues

Property tax receivable represents taxes certified by the Grand County Treasurer to be collected in the next fiscal year. Taxes are assessed on December 22 and are due in one installment on April 30 or in two installments on February 28 and June 15 of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

Supplies

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

Assets Held/Amounts Due on Behalf of Others

Assets held and amounts due on behalf of others consist of assets and liabilities held for the short term as part of our agreement with Cliffview.

Restricted Cash

Cash that has restrictions which change the nature or normal understanding of availability of the asset is reported separately on the statements of net position. Restricted cash available for obligations classified as current liabilities are reported as current assets. Noncurrent cash is held for 2015 and 2021 series debt.

Capital Assets

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

Land improvements	5-40 years
Buildings and improvements	5-40 years
Equipment	3-20 years
Lease right-of-use assets - equipment	3-10 years
Lease right-of-use assets - building	3-20 years

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

Right to use Leased Assets

Right to use leased assets are recognized at the lease commencement date and represent the Hospital's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to please the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful live of the underlying asset using the straight-line method.

Impairment of Long-Lived Assets

The Hospital considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying value of assets is appropriate. No impairment was identified for the years ended December 31, 2023 and 2022.

Deferred Outflow of Resources

Deferred outflow of resources represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resource (expense) until then. The deferred refunding costs are associated with the 2015 revenue bonds. The deferred refunding costs are being amortized on a straight-line method over the remaining term of the refunded bonds. Amortization is included in interest expense in the financial statements.

Self-Funded Health Insurance

The Hospital provides for self-insurance reserves for estimated incurred but not reported claims for its self-funded employee health plan. These reserves, which are included in current liabilities on the statement of net position, are estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

Debt Issuance Costs

Debt issuance costs are expensed as incurred.

Compensated Absences

The Hospital's employees earn paid time-off (PTO) days for vacation and sick leave at varying rates depending on years of service. Employees may accumulate PTO up to a specified maximum. Employees are paid for accumulated PTO upon termination. The liability for compensated absences is included with accrued salaries, wages, and employee benefits in the accompanying financial statements.

Deferred Inflows of Resources

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

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services – the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest costs. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was approximately \$174,000 and \$61,000 for the years ended December 31, 2023 and 2022, calculated by multiplying the ratio of overall cost to charge for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Colorado Healthcare Affordability and Sustainability Enterprise

The Hospital participates in the Colorado Healthcare Affordability and Sustainability Enterprise (CHASE), approved by the Centers for Medicare and Medicaid Services (CMS), under which all hospitals in the state are assessed a fee based on bed size and payor mix. The State of Colorado uses the fees to supplement state budget funds for the Medicaid program, which brings matching federal monies into the program, enabling the State of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible. The Hospital paid approximately \$1,111,000 and \$1,270,000 in CHASE fees for the years ended December 31, 2023 and 2022, which were recorded in operating expenses. The Hospital received approximately \$4,748,000 and \$4,709,000 of supplemental payments for the years ended December 31, 2023 and 2022, which are recorded as part of net patient service revenue.

Grants and Contributions

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

Budgets

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

Reclassifications

Reclassifications have been made to the December 31, 2022 financial information relating to assets, liabilities, operating expenses, and nonoperating revenue. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - Net Patient Service Revenue

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

Medicare. The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended December 31, 2021. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid. Inpatient services and outpatient 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.

Commercial. The Hospital has also entered into payment agreements with certain commercial insurance carriers and other 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. Clinical services are paid on a fixed fee schedule.

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended December 31, 2023 and 2022:

	2023	2022
Medicare	21%	24%
Medicaid	15%	16%
Commercial	59%	55%
Self-pay	5%	5%
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased approximately \$255,000 for the year ended December 31, 2023 and increased approximately \$306,000 for the year ended December 31, 2022 due to final settlements, adjustments to amounts previously estimated, and years that are no longer likely subject to audits, reviews, and investigations.

Note 3 - Deposits

The carrying amounts of deposits as of December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Carrying amount		
Cash and deposits	<u>\$ 22,314,793</u>	<u>\$ 21,279,037</u>

Cash and deposits are reported in the following statement of net position captions:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 18,330,899	\$ 17,543,268
Restricted by trustee for debt reserve	2,539,253	2,739,273
Board designated	<u>1,444,641</u>	<u>996,496</u>
	<u>\$ 22,314,793</u>	<u>\$ 21,279,037</u>

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2023 and 2022, the Hospital's deposits in banks were entirely covered by federal depository insurance and PDPA.

Note 4 - Provider Relief Funds

The Hospital received approximately \$1,970,000 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds were subject to terms and conditions imposed by HHS. Among the terms and conditions was a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that were attributable to coronavirus. Recipients could not use the payments to reimburse expenses or losses that had been reimbursed from other sources or that other sources were obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Hospital received the funds. Unspent funds will be expected to be repaid.

These funds were considered subsidies and recorded as a liability when received and were recognized as revenues when all terms and conditions were considered met. As these funds were considered subsidies, they were considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. During the years ended December 31, 2023 and 2022, the Hospital recognized approximately \$0 and \$1,970,000, respectively, as revenue as conditions were fully met, included as nonoperating revenue on the statement of revenues, expenses, and changes in net position. At December 31, 2023 and 2022, there were no refundable advances on the statement of net position.

Note 5 - Capital Assets

Capital asset additions, retirements, transfers and balances for the year ended December 31, 2023 are as follows:

	Balance December 31, 2022	Additions	Transfers and Retirements	Balance December 31, 2023
Capital assets not being depreciated				
Land	\$ 4,541,453	\$ -	\$ -	\$ 4,541,453
Construction in progress	1,714,647	688,798	(81,872)	2,321,573
Total capital assets not being depreciated	6,256,100	688,798	(81,872)	6,863,026
Capital assets being depreciated				
Land improvements	654,453	-	(50,558)	603,895
Buildings and improvements	35,943,229	5,669	(167,005)	35,781,893
Equipment	12,516,760	912,381	869,331	14,298,472
Total capital assets being depreciated	49,114,442	918,050	651,768	50,684,260
Total capital assets	55,370,542	1,606,848	569,896	57,547,286
Accumulated depreciation				
Land improvements	(374,945)	(26,147)	37,558	(363,534)
Buildings and improvements	(7,601,542)	(1,105,658)	270,523	(8,436,677)
Equipment	(10,283,240)	(709,291)	(552,459)	(11,544,990)
Total accumulated depreciation	(18,259,727)	(1,841,096)	(244,378)	(20,345,201)
Net depreciable capital assets	<u>\$ 30,854,715</u>			<u>\$ 30,339,059</u>
Right-to-use leased assets being amortized				
Buildings	\$ 404,764	\$ -	\$ -	\$ 404,764
Equipment	2,100,493	-	(259,771)	1,840,722
Total right-to-use leased assets being amortized	2,505,257	-	(259,771)	2,245,486
Accumulated amortization				
Buildings	(72,117)	(65,067)	-	(137,184)
Equipment	(392,635)	(472,482)	-	(865,117)
Total accumulated amortization	(464,752)	(537,549)	-	(1,002,301)
Net right-to-use leased assets	<u>\$ 2,040,505</u>			<u>\$ 1,243,185</u>
Capital assets and right-to-use assets, net	<u>\$ 39,151,320</u>			<u>\$ 38,445,270</u>

Kremmling Memorial Hospital District

Notes to Financial Statements

December 31, 2023 and 2022

Capital asset additions, retirements, transfers and balances for the year ended December 31, 2022 are as follows:

	Balance December 31, 2021	Additions	Transfers and Retirements	Balance December 31, 2022
Capital assets not being depreciated				
Land	\$ 4,541,453	\$ -	\$ -	\$ 4,541,453
Construction in progress	1,167,493	674,711	(127,557)	1,714,647
Total capital assets not being depreciated	5,708,946	674,711	(127,557)	6,256,100
Capital assets being depreciated				
Land improvements	654,453	-	-	654,453
Buildings and improvements	35,377,477	592,778	(27,026)	35,943,229
Equipment	13,707,376	670,079	(1,860,695)	12,516,760
Total capital assets being depreciated	49,739,306	1,262,857	(1,887,721)	49,114,442
Total capital assets	55,448,252	1,937,568	(2,015,278)	55,370,542
Accumulated depreciation				
Land improvements	(319,098)	(55,847)	-	(374,945)
Buildings and improvements	(6,609,787)	(1,018,781)	27,026	(7,601,542)
Equipment	(10,761,920)	(745,000)	1,223,680	(10,283,240)
Total accumulated depreciation	(17,690,805)	(1,819,628)	1,250,706	(18,259,727)
Net depreciable capital assets	<u>\$ 32,048,501</u>			<u>\$ 30,854,715</u>
Right-to-use leased assets being amortized				
Buildings	\$ 404,764	\$ -	\$ -	\$ 404,764
Equipment	1,322,979	-	777,514	2,100,493
Total right-to-use leased assets being amortized	1,727,743	-	777,514	2,505,257
Accumulated amortization				
Buildings	-	(72,117)	-	(72,117)
Equipment	-	(252,136)	(140,499)	(392,635)
Total accumulated amortization	-	(324,253)	(140,499)	(464,752)
Net right-to-use leased assets	<u>\$ 1,727,743</u>			<u>\$ 2,040,505</u>
Capital assets and right-to-use assets, net	<u>\$ 39,485,190</u>			<u>\$ 39,151,320</u>

Note 6 - Lease Obligations

The Hospital has entered into various lease agreements for buildings and medical equipment. The leases terminate at various dates through December 2031. Under the terms of the lease agreements, the Hospital pays monthly base rents ranging from \$797 to \$7,317.

At December 31, 2023 and 2022, the Hospital has recognized right to use assets of approximately \$1,503,000 and \$2,041,000, respectively, and lease liabilities of approximately \$1,621,000 and \$2,046,000, respectively, related to these agreements. During the fiscal years ended December 31, 2023 and 2022, the Hospital recorded approximately \$538,000 and \$324,000, respectively, in amortization expense and approximately \$96,000 and \$92,000, respectively, in interest expense related to the leases. When there is no interest rate explicitly stated in the lease agreement, the Hospital used a discount rate based on the incremental borrowing rate at the time the lease commenced.

Remaining principal and interest payments on leases are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 502,548	\$ 83,005
2025	473,774	54,413
2026	353,043	27,248
2027	214,280	6,125
2028	17,908	981
2029-2031	59,572	2,820
	<u>\$ 1,621,125</u>	<u>\$ 174,592</u>

Note 7 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for 2023 and 2022 is as follows:

	Balance December 31, 2022	Additions	Reductions	Balance December 31, 2023	Amounts due within one year
2015 Revenue Bonds - USDA	\$ 20,956,351		\$ (497,177)	\$ 20,459,174	\$ 502,240
USDA Revenue Bonds 2021A-1	9,315,087	-	(188,881)	9,126,206	192,934
USDA Revenue Bonds 2021A-2	4,983,081	-	(101,041)	4,882,040	103,209
USDA Revenue 2021B Note Colliers Mortgage LLC	3,593,980	-	(65,670)	3,528,310	68,020
Note Payable - Grand Mountain Bank	2,500,000	2,500,000	(2,500,000)	2,500,000	2,500,000
Leases	2,046,008	112,666	(537,549)	1,621,125	502,548
	<u>\$ 43,394,507</u>	<u>\$ 2,612,666</u>	<u>\$ (3,890,318)</u>	<u>\$ 42,116,855</u>	<u>\$ 3,868,951</u>
	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Amounts due within one year
2015 Revenue Bonds - USDA	\$ 21,432,205	\$ -	\$ (475,854)	\$ 20,956,351	\$ 487,643
USDA Revenue Bonds 2021A-1	9,500,000	-	(184,913)	9,315,087	188,881
USDA Revenue Bonds 2021A-2	5,082,000	-	(98,919)	4,983,081	101,041
USDA Revenue 2021B Note Colliers Mortgage LLC	3,657,000	-	(63,020)	3,593,980	65,670
Note Payable - Grand Mountain Bank	2,500,000	-	-	2,500,000	2,500,000
Leases	678,354	1,727,743	(360,089)	2,046,008	485,729
	<u>\$ 42,849,559</u>	<u>\$ 1,727,743</u>	<u>\$ (1,182,795)</u>	<u>\$ 43,394,507</u>	<u>\$ 3,828,964</u>

The terms and due dates of the Hospital's long-term debt at December 31, 2023 and 2022 are as follows:

- USDA Direct Loan 2015 dated November 2015 in the principal amount of \$24,000,000. Annual payments ranging from \$494,769 to \$1,126,393 including interest at 3.25%. Matures December 2050, secured by property.
- USDA Direct Loan 2021A-1 dated December 2021 in the principal amount of \$9,500,000. 420 monthly payments of \$32,100 including interest at 2.125%. Matures December 2056, secured by property.
- USDA Direct Loan 2021A-2 dated December 2021 in the principal amount of \$5,082,000. 420 monthly payments of \$17,178 including interest at 2.125%. Matures December 2056, secured by property.
- USDA Partially Guaranteed Loan 2021B Note Colliers Mortgage LLC dated December 2021 in the principal amount of \$3,657,000. 360 monthly payments of \$38,871 including interest at an aggregate rate of 4.125%, comprised of split interest rates as follows: the guaranteed portion of the Series 2021B Note bears interest at the fixed rate of 3.75% per annum; and the unguaranteed portion of the Series 2021B Note bears interest at the fixed rate of 7.50% per annum. Matures December 2051, secured by property.
- Note payable in the total amount of \$2,500,000. Payable in one payment in March 2024. Interest at 3.5% is payable monthly.

Under the terms of the USDA guaranteed loan agreements, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with noncurrent cash in the financial statements. The loan agreement also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance.

Scheduled debt service requirements for the Hospital's long-term debt, excluding leases, are as follows for the years ending December 31:

	<u>Principal</u>	<u>Interest</u>
2024	\$ 3,366,403	\$ 1,177,529
2025	901,448	1,074,372
2026	928,224	1,047,596
2027	955,832	1,019,987
2028	982,265	993,555
2029-2033	5,378,327	4,500,772
2034-2038	6,235,713	3,643,386
2039-2043	7,236,631	2,642,468
2044-2048	8,405,836	1,473,262
2049-2053	4,381,202	396,811
2054-2058	1,723,849	58,331
	<u>\$ 40,495,730</u>	<u>\$ 18,028,069</u>

Paycheck Protection Program

In 2020, the Hospital was granted a \$2,534,874 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and was fully guaranteed by the Federal government. The Hospital initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA. The Hospital recognized \$2,534,874 loan forgiveness income for the year ended December 31, 2022.

Note 8 - Pension Plan

The Hospital has a defined contribution 457 Plan (the 457 Plan). Plan participation is option for all employees over the age of 18. Benefit provisions are included in the 457 Plan documents were established and can be amended by the Hospital's Board of Trustees and management. Employees are permitted to make contributions up to applicable Internal Revenue Code limits. The Hospital is not required to contribute to the 457 Plan and did not contribute for the years ended 2023, 2022, and 2021, respectively.

The Hospital also has a defined contribution 401(a) Plan (the 401(a) Plan), which covers all employees. Employees do not contribute to this plan. The District contributes to the 401(a) Plan on a discretionary basis. The 401(a) Plan is administered by the District. Benefit terms, including contribution requirements, for the 401(a) Plan are established and may be amended by the District. Contributions to the Plan approximated \$447,000, \$432,000, and \$387,000 during the years ended December 31, 2023, 2022, and 2021, respectively.

Note 9 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients as of December 31, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Medicare	15%	18%
Medicaid	22%	22%
Commercial insurance	44%	32%
Self-pay	19%	28%
	<u>100%</u>	<u>100%</u>

Note 10 - Contingencies

Risk Management

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

Malpractice Insurance

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

Litigation, Claims, and Disputes

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

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

Paycheck Protection Program (PPP) Loan Review

The Hospital applied for and received loan forgiveness from the SBA on its PPP loan in 2022. In accordance with PPP loan requirements, the Hospital is required to maintain PPP loan files and certain underlying supporting documents for periods ranging from three to six years. The Hospital is also required to permit access to such files upon request by the SBA. Accordingly, there is potential the PPP loan could be subject to further review by the SBA and that previously recognized forgiveness could be reversed based on the outcome of this review.

Self-Funded Health Plan

The Hospital is self-funded for health benefits for eligible employees and their dependents. The Hospital, in connection with this plan, recognizes health benefit expenses on an accrual basis. An accrued liability is recorded at year-end which estimates the incurred but not reported claims that will be paid by the Hospital. The Hospital has stop loss insurance to cover claims in excess of \$50,000 per claim.

The Hospital expenses amounts representing the employer's portion of actual claims paid, adjusted for the estimates of liabilities relating to claims resulted from services provided prior to the fiscal year end not to exceed the annual aggregate expense. The estimated liability is included in accrued salaries and wages in the financial statements. These amounts have been estimated based on historical trends and actuarial analysis. Changes in the balance of claims liabilities during the past two years are as follows:

Year	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Liability
2022	\$ 305,145	\$ 4,355,592	\$ (3,851,990)	\$ 808,747
2023	808,747	3,930,256	(4,121,979)	617,024

Note 11 - Subsequent Events

Subsequent to year-end, Change Healthcare experienced a material data breach which has caused significant disruption in the ability of healthcare providers across the United States to bill and collect outstanding claims, as well as other operational impacts. The Hospital continues to monitor the developments associated with the breach and is currently assessing the impact of this incident on its operations. Given the inherent uncertainty surrounding such events, the ultimate impact on the Hospital's financial statements cannot be reasonably estimated at this time.

Subsequent to year end, the Hospital entered into an agreement with a financial institution to refinance the existing debt with USDA and provide financing for the construction of a new facility in Fraser, Colorado. The total debt incurred under this issuance is \$73.3 million that is payable in annual installments, plus interest until November 2056. The Hospital broke ground on the Fraser campus in April 2024. The costs of this projected are expected to be approximately \$30 million, a portion of which will be raised through community donations and operations, and the rest will be financed.

Management has evaluated subsequent events through June 5, 2024, the date the financial statements were available to be issued.



Supplementary Information
December 31, 2023 and 2022

Kremmling Memorial Hospital District

Kremmling Memorial Hospital District
Schedule of Revenues and Expenses – Budget and Actual
Year Ended December 31, 2023

	Budget	Actual	Variance Favorable/ (Unfavorable)
Operating Revenue			
Net patient and resident service revenue	\$ 49,923,564	\$ 52,190,753	\$ 2,267,189
Other revenue	288,900	511,246	222,346
Total operating revenue	<u>50,212,464</u>	<u>52,701,999</u>	<u>2,489,535</u>
Operating Expenses			
Salaries and wages	22,387,256	21,169,075	1,218,181
Employee benefits	9,043,643	5,790,964	3,252,679
Professional fees and purchased services	9,339,700	13,314,261	(3,974,561)
Supplies	5,688,674	4,603,266	1,085,408
Insurance	188,500	402,061	(213,561)
Depreciation and amortization	2,383,000	2,378,645	4,355
Provider fees (provider tax expense)	3,462,276	1,110,840	2,351,436
Other	3,923,045	1,686,647	2,236,398
Total operating expenses	<u>56,416,094</u>	<u>50,455,759</u>	<u>5,960,335</u>
Operating Income (Loss)	<u>(6,203,630)</u>	<u>2,246,240</u>	<u>8,449,870</u>
Nonoperating Revenues (Expenses)			
Property tax revenues	950,000	1,025,083	75,083
Interest expense	(2,312,286)	(1,285,837)	1,026,449
Loss on disposal of assets	-	(9,258)	(9,258)
Nonoperating revenues (expenses), net	<u>(1,362,286)</u>	<u>(270,012)</u>	<u>1,092,274</u>
Capital Contributions and Grants	<u>700,000</u>	<u>-</u>	<u>(700,000)</u>

Notes to Schedule:

1. Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.
2. Appropriations are adopted by resolutions in total. For the year ended December 31, 2023, there were no additional resolutions for supplementary budget and appropriation.
3. Management believes that the Hospital is compliant with the rules of Colorado's Taxpayer's Bill of Rights (TABOR).



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2023

Kremmling Memorial Hospital District



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

To the Board of Directors
Kremmling Memorial Hospital District
Kremmling, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Kremmling Memorial Hospital District (the Hospital) which comprise the statements of net position as of December 31, 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2024.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

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

The Hospital's Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Hospital's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Hospital's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Denver, Colorado
June 5, 2024



CPAs & BUSINESS ADVISORS

**Independent Auditor’s Report on Compliance for Its Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures
of Federal Awards Required by the Uniform Guidance**

To the Board of Directors
Kremmling Memorial Hospital District
Kremmling, Colorado

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Kremmling Memorial Hospital District’s (the Hospital) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Hospital’s major federal program for the year ended December 31, 2023. The Hospital’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Hospital’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Hospital’s federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Hospital as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements. We issued our report thereon dated June 5, 2024, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Eide Bailly LLP

Denver, Colorado
June 5, 2024

Kremmling Memorial Hospital District
 Schedule of Expenditures of Federal Awards
 Year Ended December 31, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
United States Department of Agriculture Rural Housing and Community Facilities <i>Community Facilities Loans and Grants Cluster</i> Community Facilities Loans and Grants	10.766	N/A	<u>\$ 38,489,101</u>
United States Department of Homeland Security Federal Emergency Management Agency Passed through the State of Colorado Department of Public Safety Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	22D4498-00142 KMHD-MPMC	<u>240,365</u>
Total Federal Financial Assistance			<u><u>\$ 38,729,466</u></u>

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Kremmling Memorial Hospital District (the Hospital) under programs of the federal government for the year ended December 31, 2023. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

Note 2 – Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 – Indirect Cost Rate

The Hospital has not elected to use the 10% de minimis cost rate.

Note 4 - Loan Programs

Expenditures reported on this schedule consists of the beginning of the year outstanding loan balance of the Hospital's USDA direct loan of \$38,848,499, of which \$38,489,101 is guaranteed by USDA. If applicable, advances made on the loan during the year are reported on the Schedule. The Hospital made no advances on the loan during the year ended December 31, 2023. The Hospital's outstanding loan balance for the direct loan as of December 31, 2023, was \$37,642,899.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiency identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiency identified not considered to be material weaknesses	None noted
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a):	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
Community Facilities Loans and Grants Cluster	10.766
Dollar threshold used to distinguish between Type A and Type B Programs	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

**2023-001 Preparation of Financial Statements including the Schedule of Expenditures of Federal Awards
Significant Deficiency in Internal Control over Financial Reporting**

Criteria – A properly designed system of internal control over financial reporting includes preparation of an entity’s financial statements and accompanying notes by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements and the schedule of expenditures of federal awards (collectively financial statements) in accordance with U.S generally accepted accounting principles (GAAP).

Condition – The Hospital does not have an internal control system designed to provide for the preparation of financial statements being audited, including related disclosures in accordance with GAAP.

Cause – This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints. Furthermore, management has elected to have the financial statements and footnotes prepared by the auditors as part of the audit.

Effect – This control deficiency could result in required information being omitted from the financial statements. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally. It is the responsibility of management and those charges with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials – Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

None noted.