

MONTEZUMA COUNTY HOSPITAL DISTRICT

BASIC FINANCIAL STATEMENTS

December 31, 2023

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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Montezuma County Hospital District
Cortez, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and each major fund, of the Montezuma County Hospital District (the "District") as of and for the year ended December 31, 2023, 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 accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Montezuma County Hospital District as of December 31, 2023, and the respective changes in financial position, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement 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 of 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 of 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required budgetary information on page 18 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not presented the management's discussion and analysis that governmental 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 is not affected by this missing information.

John Luther & Associates, LLC

August 21, 2024

BASIC FINANCIAL STATEMENTS

MONTEZUMA COUNTY HOSPITAL DISTRICT

STATEMENT OF NET POSITION

As of December 31, 2023

	GOVERNMENTAL ACTIVITIES	
	2023	2022
ASSETS		
Cash and Investments	\$ 2,147,507	\$ 2,022,966
Accounts Receivable	385,452	376,496
Escrow Deposit	800,000	800,000
Property Taxes Receivable	536,808	458,000
Prepaid Expenses	5,823	6,071
Capital Assets, not depreciated	567,128	567,128
Capital Assets, depreciated	42,126,173	43,577,202
TOTAL ASSETS	46,568,891	47,807,863
LIABILITIES		
Accounts Payable	5,531	189,774
Accrued Expenses	8,500	8,500
TOTAL LIABILITIES	14,031	198,274
DEFERRED INFLOWS OF RESOURCES		
Deferred Property Tax Revenue	536,808	458,000
NET POSITION		
Net Investment in Capital Assets	42,693,301	44,144,330
Unrestricted	3,324,751	3,007,259
TOTAL NET POSITION	\$ 46,018,052	\$ 47,151,589

The accompanying notes are an integral part of the financial statements.

MONTEZUMA COUNTY HOSPITAL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended December 31, 2023

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
	Expenses	Charges for Services	Capital Grants and Contributions	GOVERNMENTAL ACTIVITIES	
				2023	2022
PRIMARY GOVERNMENT					
Governmental Activities					
General Government	\$ 3,961,524	\$ 38,930	\$ 7,500	\$ (3,915,094)	\$ (4,075,778)
Total Governmental Activities	<u>\$ 3,961,524</u>	<u>\$ 38,930</u>	<u>\$ 7,500</u>	<u>(3,915,094)</u>	<u>(4,075,778)</u>
GENERAL REVENUES					
Property Taxes				482,279	608,891
Specific Ownership Tax				60,104	75,961
Hospital Expansion Tax				2,160,544	2,152,570
Interest				45,584	1,692
Other				12,046	2,767
SPECIAL ITEM					
Capital Contribution				21,000	91,826
TOTAL GENERAL REVENUES				<u>2,781,557</u>	<u>2,933,707</u>
CHANGE IN NET POSITION				(1,133,537)	(1,142,071)
NET POSITION, Beginning				<u>47,151,589</u>	<u>48,293,660</u>
NET POSITION, Ending				<u>\$ 46,018,052</u>	<u>\$ 47,151,589</u>

The accompanying notes are an integral part of the financial statements.

MONTEZUMA COUNTY HOSPITAL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2023

	<u>GENERAL FUND</u>	
	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and Investments	\$ 2,147,507	\$ 2,022,966
Accounts Receivable	385,452	376,496
Escrow Deposit	800,000	800,000
Prepaid Expenses	5,823	6,071
Property Taxes Receivable	536,808	458,000
TOTAL ASSETS	<u><u>\$ 3,875,590</u></u>	<u><u>\$ 3,663,533</u></u>
LIABILITIES, DEFERRED INFLOWS, AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ 5,531	\$ 189,774
Accrued Expenses	8,500	8,500
TOTAL LIABILITIES	<u>14,031</u>	<u>198,274</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Property Tax Revenue	<u>536,808</u>	<u>458,000</u>
FUND EQUITY		
Fund Balance		
Nonspendable	805,823	806,071
Restricted	659,406	496,312
Unassigned	1,859,522	1,704,876
TOTAL FUND EQUITY	<u>3,324,751</u>	<u>3,007,259</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND EQUITY	<u><u>\$ 3,875,590</u></u>	<u><u>\$ 3,663,533</u></u>
Amounts reported for governmental activities in the statement of net position are different because:		
Fund Balance	\$ 3,324,751	\$ 3,007,259
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>42,693,301</u>	<u>44,144,330</u>
Net position of governmental activities	<u><u>\$ 46,018,052</u></u>	<u><u>\$ 47,151,589</u></u>

The accompanying notes are an integral part of the financial statements.

MONTEZUMA COUNTY HOSPITAL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended December 31, 2023

	GENERAL FUND	
	2023	2022
REVENUES		
Property Taxes	\$ 482,279	\$ 608,891
Specific Ownership Taxes	60,104	75,961
Hospital Expansion Tax	2,160,544	2,152,570
Intergovernmental	7,500	140,934
Investment Income	45,584	1,692
Lease Revenue	38,930	41,560
Other	12,046	2,767
TOTAL REVENUES	<u>2,806,987</u>	<u>3,024,375</u>
EXPENDITURES		
Current		
General Government		
Insurance	6,350	5,800
Legal and Professional Fees	48,315	224,640
Other Expenses	10,726	1,691
Contributions	-	1,079
County Treasurer Fees	9,650	11,059
Capital Outlay	2,435,454	3,925,495
TOTAL EXPENDITURES	<u>2,510,495</u>	<u>4,169,764</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>296,492</u>	<u>(1,145,389)</u>
OTHER FINANCING SOURCES (USES)		
Capital Contributions	21,000	91,826
TOTAL OTHER FINANCING SOURCES (USES)	<u>21,000</u>	<u>91,826</u>
NET CHANGE IN FUND BALANCE	317,492	(1,053,563)
FUND BALANCE, Beginning	<u>3,007,259</u>	<u>4,060,822</u>
FUND BALANCE, Ending	<u>\$ 3,324,751</u>	<u>\$ 3,007,259</u>

The accompanying notes are an integral part of the financial statements.

MONTEZUMA COUNTY HOSPITAL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended December 31, 2023

Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

Net Changes in Fund Balances - Total Governmental Funds \$ 317,492

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$1,740,509) exceeded capital outlay \$289,480 for the current period. (1,451,029)

Change in Net Position of Governmental Activities \$ (1,133,537)

The accompanying notes are an integral part of the financial statements.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Montezuma County Hospital District (the “District”) was created April 28, 1975, in accordance with Chapter 32, Article 4 of the Colorado Revised Statutes, 1973, as applicable to special districts. The District is a political subdivision of the State of Colorado and is governed by a Board of Directors elected by the residents of Montezuma County (the “County”). The District operated Southwest Memorial Hospital (the “Hospital”), a sixty-one-bed acute care facility in Cortez, Colorado until September 14, 1996. On that date, the District, under a signed lease agreement, transferred the operations and certain net assets of the District to Southwest Health Systems, Inc. (SHS), a non-profit organization exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code, incorporated March 8, 1996, for the purpose of operating the Hospital. The District continues to serve the people of the County through health care related projects. The District retains all rights of ownership and general oversight of the real estate and physical hospital plant, as well as all aspects of health care issues and concerns within the District.

The accounting policies of the Montezuma County Hospital District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity

In accordance with governmental accounting standards, the Montezuma County Hospital District has considered the possibility of inclusion of additional entities in its financial statements.

The definition of the reporting entity is based primarily on financial accountability. The District is financially accountable for organizations that make up its legal entity. It is also financially accountable for legally separate organizations if District officials appoint a voting majority of the organization’s governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the District. The District may also be financially accountable for organizations that are fiscally dependent upon it.

The Health Facilities Enterprise was enacted to serve as a financing entity for the District, and is governed by a board comprised of The District’s elected board. The Enterprise’s bonds are approved by The District’s board. The activities of the Enterprise are reported in the General Fund of the District.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current *financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes, specific ownership taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first, then unrestricted resources as they are needed.

In the fund financial statements, the District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District.

Investments

Investments are recorded at fair value.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property and equipment of the District is depreciated using the straight line method over the estimated useful lives between fifteen and forty years.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities fund type statement of net position.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

The government-wide financial statements, utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets includes the District's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The District typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The District reports deposits and prepaid items as nonspendable at December 31, 2023.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District reports sales tax revenue collected for debt service as restricted at December 31, 2023.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Fund Balance (Continued)

- **Committed** – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District does not report any committed fund balances at December 31, 2023.
- **Unassigned** – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, *deferred inflow of resources*, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes are levied on November 1 and attach as an enforceable lien on property on January 1. Taxes are payable in full on April 30 or in two installments on February 28 and June 15. The County Treasurer's office collects property taxes and remits to the District on a monthly basis.

Since property tax revenues are collected in arrears during the succeeding year, a receivable and corresponding deferred revenue are recorded at December 31. As the tax is collected in the succeeding year, the deferred revenue is recognized as revenue and the receivable is reduced.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- In September, District Management submits to the Board of Directors a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to December 31, the budget is legally enacted through passage of a resolution.
- District Management is authorized to transfer budgeted amounts between departments within any fund. However, any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY(Continued)

Budgets and Budgetary Accounting (Continued)

- Budgets are legally adopted for all funds of the District on a basis consistent with generally accepted accounting principles (GAAP).
- Budgeted amounts in the financial statements are as originally adopted or as amended by the Board of Directors. All appropriations lapse at year end.

NOTE 3: CASH AND INVESTMENTS

A summary of deposits and investments as of December 31, 2023 follows:

Deposits	\$ 1,362,142
Investments	<u>785,365</u>
Total	<u>\$ 2,147,507</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government'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. At December 31, 2023, State regulatory commissioners have indicated that all financial institutions holding deposits for the District are eligible public depositories.

Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The Authority has no policy regarding custodial credit risk for deposits.

At December 31, 2023, the District had deposits with financial institutions with a carrying amount of \$1,362,142. The bank balances with the financial institutions were \$1,373,843. Of these balances, \$500,000 was covered by federal depository insurance and \$873,843 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

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

The above investments are authorized for all funds and fund types used by Colorado municipalities.

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

At December 31, 2023, the District held investments in U.S. Government Agency Bonds in the amount of \$785,365 with maturity dates of less than one and four years. Given the low risk of this type of investment, the District has not established a policy limiting the amount of investments in this type of security and deems it unnecessary at this time. These investments are valued with Level 1 inputs.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 4: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2023, is summarized below:

	Balances <u>12/31/22</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>12/31/23</u>
Governmental Activities				
Capital Assets, not depreciated				
Land	\$ 567,128	\$ -	\$ -	\$ 567,128
Total Capital Assets, not Depreciated	<u>567,128</u>	<u>-</u>	<u>-</u>	<u>567,128</u>
Capital Assets, depreciated				
Buildings	50,583,487	-	-	50,583,487
Infrastructure	5,132,568	268,480	-	5,401,048
Equipment	<u>17,459,435</u>	<u>21,000</u>	<u>-</u>	<u>17,480,435</u>
Total Capital Assets, depreciated	<u>73,175,490</u>	<u>289,480</u>	<u>-</u>	<u>73,464,970</u>
Less Accumulated Depreciation				
Buildings	15,133,904	1,179,510	-	16,313,414
Infrastructure	1,083,941	202,986	-	1,286,927
Equipment	<u>13,380,443</u>	<u>358,013</u>	<u>-</u>	<u>13,738,456</u>
Total Accumulated Depreciation	<u>29,598,288</u>	<u>1,740,509</u>	<u>-</u>	<u>31,338,797</u>
Total Capital Assets, depreciated, net	<u>43,577,202</u>	<u>(1,451,029)</u>	<u>-</u>	<u>42,126,173</u>
Governmental Activities, Capital Assets, Net	<u>\$ 44,144,330</u>	<u>\$ (1,451,029)</u>	<u>\$ -</u>	<u>\$ 42,693,301</u>

Depreciation expense was charged to the General Government activity.

NOTE 5: LEASE AGREEMENTS

Southwest Health Systems, Inc. (“SHS”)

As part of the September 14, 1996, lease agreement, the District entered into an operating lease arrangement whereby it leases substantially all of the District’s capital assets to the SHS. The lease expires on September 30, 2046 and is cancelable by default or by mutual agreement of the parties. The scheduled lease payments were intended to approximate the required payments on the District’s outstanding long-term revenue bonds. The lease agreement was amended in 1999 and increased the lease payments beginning in 2000 for certain improvements. Upon termination of the lease for any reason, the SHS will be required to transfer all leased assets back to the District.

On April 9, 2003, the lease agreement was amended in anticipation of the District financing an expansion of the Hospital. In the amended agreement, SHS agreed to pay to the District sufficient funds to retire the existing revenue bonds. SHS also agreed to pay lease payments for the purpose of timely satisfying the new debt incurred by the District, which is required to fund the expansion.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 5: LEASE AGREEMENTS (Continued)

In April 2005, the District obtained permanent financing and SHS began making monthly payments in the amount of \$68,597. With the refunding of the District's bonds, SHS is no longer responsible for making monthly financing payments to the District. However, SHS annually remits to the District the amount of \$10,000 as an operating lease payment.

In November 2016, in conjunction with SHS's financing of the hospital expansion project, the lease amendment was amended to extend the term of the agreement to September 30, 2051. In addition, the amended agreement authorizes SHS to enter into a loan agreement to finance the hospital expansion project and no additional lease payments are due to the District.

Mancos Clinic

In May 2012 the District entered into a lease agreement to lease a portion of the Mancos clinic to Southwest Memorial Hospital. The lease requires monthly payments of \$1,800 through May 2015. The lease agreement also includes a risk sharing clause, where the District agrees to pay Southwest Memorial Hospital a maximum of \$150,000 to cover operating losses during the first year of the lease and up to \$75,000 during the second year of the lease. For the year ended December 31, 2023, the District did not make any payments to Southwest Memorial Hospital under the terms of this agreement. Half of the clinic is rented on a month to month basis.

In July 2018, the lease agreement was extended through August 1, 2023. The amended lease requires monthly lease payments of \$1,800 and the risk sharing clause was eliminated.

NOTE 6: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District participates in the Colorado Special District Property and Liability Insurance Pool to manage these risks of loss. The Pool insures property, liability, workers' compensation and associated exposures through contributions made by member districts. The District does not maintain an equity interest in the insurance pool. The District funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund. Claims have not exceeded insurance coverage in the last three years.

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 7: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The District receives funding from the state government for various projects. These funds are subject to review and audit by the state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. District management believes that such amounts, if any, will be immaterial.

Tabor Amendment

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. Based upon the voters' approval of the District's exemption from the Tabor limitation and "any other law" including the 5.5% limitation. The District has been exempt from the requirements of the Tabor amendment including the 5.5% growth limitation since January 1, 2014. The District believes it is in compliance with the Amendment and does not report a restriction of fund balance in the General Fund.

Hospital Expansion Project

During the year ended December 31, 2016, the District entered into various agreements and modified existing agreements with the District's hospital operator, SHS. Below is a summary of the most significant agreements:

SHS Loan Agreement

In November 2016, SHS entered into a loan agreement in the amount of \$40,000,000. The loan is funded by Montezuma County \$39,558,000 Series 2016A and \$442,000 2016B Revenue bonds. Proceeds will be used to provide funding for the hospital expansion. In addition, a portion of the proceeds are used to pay off the District's existing bond debt.

The bonds carry interest rates ranging from 4.72% to 5.9%. Debt service payments are payable by SHS through December 2046 for the Series 2016A bonds and through June 2023 for the Series 2016B bonds. The bonds and were purchased by a syndicate of six commercial banks to provide the funding to SHS.

Project Funding Agreement

On November 1, 2016, the District entered into a project funding agreement with SHS. Under the terms of the agreement, SHS agrees to finance, undertake, and complete the hospital expansion project. Funding for the project was obtained through the SHS loan agreement in the amount of \$40,000,000, including a \$2,000,000 grant from the Colorado Department of Local Affairs (DOLA).

MONTEZUMA COUNTY HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

NOTE 7: COMMITMENTS AND CONTINGENCIES (Continued)

All improvements constructed under the agreement are owned by the District, subject to the existing lease agreement between the two parties. In addition, the District has agreed to reimburse SHS for actual project costs in annual installments of \$1,400,000 from 2022 through 2030. The sales tax collected by the district was approved by voters in the November 2015 election specifically to fund the Districts Hospital expansion project. All of the sales tax revenue collected will be applied to the hospital expansion project in strict compliance with the 2015 ballot language. The sales tax revenue is applied to the project by District Board appropriation. In May of 2023 the voters of the District approved to remove the sunset provision of the sales tax and decreased the mill levy by 25%.

In conjunction with these agreements, the District also adopted a resolution to provide \$800,000 in reserve funds to satisfy SHS's loan reserve requirements. SHS has agreed that these funds are not to be used to satisfy current debt service requirements. The reserve funds are to be paid back to the District once SHS's loan has been paid in full. The amount is reported as a deposit on the District's balance sheet.

NOTE 8: SUBSEQUENT EVENTS

Potential subsequent events were considered through August 21, 2024. It was determined that no events were required to be disclosed through this date.

REQUIRED SUPPLEMENTAL INFORMATION

MONTEZUMA COUNTY HOSPITAL DISTRICT

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended December 31, 2023

	2023		VARIANCE Positive (Negative)	2022 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Local Sources				
Property Taxes	\$ 458,000	\$ 482,279	\$ 24,279	\$ 608,891
Specific Ownership Taxes	60,000	60,104	104	75,961
Hospital Expansion Tax	1,600,000	2,160,544	560,544	2,152,570
Intergovernmental	-	7,500	7,500	140,934
Investment Income	1,000	45,584	44,584	1,692
Lease Revenue	40,000	38,930	(1,070)	41,560
Other	5,000	12,046	7,046	2,767
TOTAL REVENUES	<u>2,164,000</u>	<u>2,806,987</u>	<u>642,987</u>	<u>3,024,375</u>
EXPENDITURES				
Current				
General Government				
Insurance	10,000	6,350	3,650	5,800
Legal and Professional Fees	103,500	48,315	55,185	224,640
Other Expenses	39,500	10,726	28,774	1,691
Contributions	-	-	-	1,079
County Treasurer Fees	15,000	9,650	5,350	11,059
Capital Outlay	<u>2,900,000</u>	<u>2,435,454</u>	<u>464,546</u>	<u>3,925,495</u>
TOTAL EXPENDITURES	<u>3,068,000</u>	<u>2,510,495</u>	<u>557,505</u>	<u>4,169,764</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(904,000)</u>	<u>296,492</u>	<u>1,200,492</u>	<u>(1,145,389)</u>
OTHER FINANCING SOURCES (USES)				
Capital Contributions	<u>-</u>	<u>21,000</u>	<u>21,000</u>	<u>91,826</u>
NET CHANGE IN FUND BALANCE	<u>(904,000)</u>	<u>317,492</u>	<u>1,221,492</u>	<u>(1,053,563)</u>
FUND BALANCE, Beginning	<u>3,119,646</u>	<u>3,007,259</u>	<u>(112,387)</u>	<u>4,060,822</u>
FUND BALANCE, Ending	<u>\$ 2,215,646</u>	<u>\$ 3,324,751</u>	<u>\$ 1,109,105</u>	<u>\$ 3,007,259</u>

See the accompanying independent auditors' report.