



Financial Statements  
December 31, 2022 and 2021  
**Telluride Hospital District**

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## Independent Auditor's Report

The Board of Directors  
Telluride Hospital District  
Telluride, Colorado

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the statements of net position of Telluride Hospital District (District), as of and for the year ended December 31, 2022, and 2021 and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position Telluride Hospital District as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Telluride Hospital District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

### ***Required Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Fargo, North Dakota  
July 31, 2023

## Introduction

Management's discussion and analysis of Telluride Hospital District's (District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2022, 2021, and 2020. It should be read in conjunction with the District's financial statements, which begin on page 8.

## Financial Highlights

- The District's net position decreased by \$1,475,766 or 19.2% in 2022, increased by \$286,833 or 3.9% in 2021, and increased by \$1,322,497 or 21.7% in 2020.
- Total operating revenues increased by \$62,311 or 1.1% in 2022, increased by \$133,527 or 2.3% in 2021, and decreased by \$422,096 or 6.9% in 2020.
- Operating expenses increased by \$931,782 or 9.0% in 2022, \$232,129 or 2.3% in 2021, and \$1,008,033 or 11.1% in 2020.
- The District reported operating losses of \$5,387,451 in 2022, \$4,517,980 in 2021, and \$4,419,378 in 2020.
- Nonoperating revenues decreased by \$884,878 or 19.3% in 2022, \$857,989 or 15.7% in 2021, and increased by \$1,640,053 or 43.0% in 2020. The 2020 increase included \$1,381,453 in support from noncapital contributions and grants as well as \$1,081,765 in support from community support activities from the Foundation.

## Using This Annual Report

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

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

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

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

### The Statement of Cash Flows

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

### The District's Net Position

The District's net position is the difference between its assets, liabilities, and deferred inflows of resources. The District's net position decreased by \$1,475,766 or 19.2% in 2022 and increased by \$286,833 or 3.9% in 2021 as shown below:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets			
Current assets	\$ 6,797,521	\$ 8,247,325	\$ 8,845,768
Capital assets, net	3,395,475	3,559,299	3,162,275
Other noncurrent assets	<u>28,599</u>	<u>24,599</u>	<u>48,188</u>
Total assets	<u>\$ 10,221,595</u>	<u>\$ 11,831,223</u>	<u>\$ 12,056,231</u>
Liabilities			
Current liabilities	<u>\$ 819,492</u>	<u>\$ 1,055,980</u>	<u>\$ 1,679,844</u>
Deferred Inflows of Resources	<u>3,179,876</u>	<u>3,077,250</u>	<u>2,965,227</u>
Net Position			
Net investment in capital assets	3,395,475	3,559,299	3,162,275
Restricted by donors - expendable	62,702	734,356	734,356
Unrestricted	<u>2,764,050</u>	<u>3,404,338</u>	<u>3,514,529</u>
Total net position	<u>6,222,227</u>	<u>7,697,993</u>	<u>7,411,160</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 10,221,595</u>	<u>\$ 11,831,223</u>	<u>\$ 12,056,231</u>

**Operating Results and Changes in the District's Net Position**

The following table highlights the District's operations and changes in net position. The District had operating losses for 2022, 2021 and 2020. Net position decreased in 2022 and increased in 2021 and 2020.

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating Revenues			
Net patient service revenue	\$ 5,647,284	\$ 5,417,872	\$ 5,128,355
Other operating revenue	256,428	423,529	579,519
Total operating revenue	<u>5,903,712</u>	<u>5,841,401</u>	<u>5,707,874</u>
Operating Expenses			
Salaries, wages, and employee benefits	5,753,200	5,780,516	5,546,884
Supplies, professional fees, and other	5,166,059	4,274,544	4,322,695
Depreciation and amortization	371,904	304,321	257,673
Total operating expenses	<u>11,291,163</u>	<u>10,359,381</u>	<u>10,127,252</u>
Operating Loss	<u>(5,387,451)</u>	<u>(4,517,980)</u>	<u>(4,419,378)</u>
Nonoperating Revenues			
Property taxes	3,130,032	3,118,318	2,966,243
Noncapital contributions and donations	70,056	614,785	1,381,453
Forgiveness of Paycheck Protection Program Loan	-	725,551	-
Interest income	(59,994)	5,770	22,141
Community support activities and other	568,641	129,189	1,081,765
Nonoperating revenues, net	<u>3,708,735</u>	<u>4,593,613</u>	<u>5,451,602</u>
Revenues in Excess of Expenses (Less Than) Before Capital Contributions and Grants	(1,678,716)	75,633	1,032,224
Capital Contributions and Grants	<u>202,950</u>	<u>211,200</u>	<u>290,273</u>
Change in Net Position	(1,475,766)	286,833	1,322,497
Net Position, Beginning of Year	<u>7,697,993</u>	<u>7,411,160</u>	<u>6,088,663</u>
Net Position, End of Year	<u>\$ 6,222,227</u>	<u>\$ 7,697,993</u>	<u>\$ 7,411,160</u>



### **Operating Income**

The first component of the overall change in the District's net position is its operating income, generally, the difference between operating revenues and the expenses incurred to perform those services. The District reported operating losses of \$5.4 million in 2022, \$4.5 million in 2021, and \$4.4 million in 2020.

Net patient service revenues increased approximately \$229,000 to approximately \$5.6 million in 2022, an increase of 4.2% compared to 2021, which was primarily driven by an increase in visits in 2022. Net patient service revenues increased approximately \$290,000 in 2021 to approximately \$5.4 million, which was an increase of 5.6% compared to 2020.

Operating expenses increased from approximately \$10.1 million in 2020 to approximately \$10.4 million in 2021, an increase of 2.3%, and increased to approximately \$11.3 million from 2021 to 2022, an increase of 9.0%. The increases in 2022 and 2021 are largely attributable to salaries and benefits, professional contract services, and marketing and grant expense in the Foundation.

### **Nonoperating Revenues and Expenses**

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

### **The District's Cash Flows**

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

### **Capital Assets**

At the end of 2022, 2021, and 2020 the District had \$3,395,475, \$3,559,299, and \$3,162,275 invested in capital assets, net of accumulated depreciation. During 2022, the District invested approximately \$317,000 in new capital assets, primarily for the new facility project. During 2021, the District invested approximately \$759,000 in new capital assets, primarily for medical equipment and building improvements. During 2020, the District invested approximately \$625,000 in new capital assets, primarily for the new facility project.

### **Other Economic Factors**

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

### **Contacting the District's Financial Management**

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

Telluride Hospital District  
Statements of Net Position  
December 31, 2022 and 2021

	2022	2021
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,868,546	\$ 2,124,283
Short-term investments	243,418	2,056,131
Receivables		
Patient, net of estimated uncollectibles of approximately \$392,000 and \$210,000 in 2022 and 2021	1,264,337	815,768
Property taxes receivable	3,179,876	3,077,250
Supplies and prepaid expenses	241,344	173,893
Total current assets	6,797,521	8,247,325
<b>Capital Assets</b>		
Capital assets not being depreciated	1,143,537	894,371
Capital assets being depreciated, net	2,251,938	2,664,928
Total capital assets	3,395,475	3,559,299
<b>Other Assets</b>		
	28,599	24,599
Total assets	\$ 10,221,595	\$ 11,831,223
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 141,146	\$ 319,662
Accrued compensation and employee benefits	678,346	736,318
Total current liabilities	819,492	1,055,980
<b>Deferred Inflows of Resources</b>		
Property taxes	3,179,876	3,077,250
<b>Net Position</b>		
Net investment in capital assets	3,395,475	3,559,299
Restricted by donors - expendable	62,702	734,356
Unrestricted	2,764,050	3,404,338
Total net position	6,222,227	7,697,993
Total liabilities, deferred inflows of resources, and net position	\$ 10,221,595	\$ 11,831,223

Telluride Hospital District  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$126,865 and \$547,958 in 2022 and 2021	\$ 5,647,284	\$ 5,417,872
Other revenue	256,428	423,529
Total operating revenues	<u>5,903,712</u>	<u>5,841,401</u>
Operating Expenses		
Salaries and wages	4,859,180	4,743,110
Employee benefits	894,020	1,037,406
Professional and contract services	3,730,767	2,772,164
Supplies	499,462	428,572
Depreciation	371,904	304,321
Information technology	202,604	423,198
Occupancy	460,491	410,848
Other	272,735	239,762
Total operating expenses	<u>11,291,163</u>	<u>10,359,381</u>
Operating Loss	<u>(5,387,451)</u>	<u>(4,517,980)</u>
Nonoperating Revenues (Expenses)		
Property taxes	3,130,032	3,118,318
Noncapital contributions and grants	70,056	614,785
Forgiveness of Paycheck Protection Program Loan	-	725,551
Loss on disposal of capital assets	(127,072)	-
Other	4,720	21,576
Net investment return	(59,994)	5,770
Community support activities	690,993	107,613
Total nonoperating revenues, net	<u>3,708,735</u>	<u>4,593,613</u>
Revenues in Excess of (Less Than) Expenses Before Capital Contributions and Grants	(1,678,716)	75,633
Capital Contributions and Grants	<u>202,950</u>	<u>211,200</u>
Change in Net Position	(1,475,766)	286,833
Net Position, Beginning of Year	<u>7,697,993</u>	<u>7,411,160</u>
Net Position, End of Year	<u>\$ 6,222,227</u>	<u>\$ 7,697,993</u>

Telluride Hospital District  
 Statements of Cash Flows  
 Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating Activities		
Cash received from patient services	\$ 5,198,715	\$ 5,233,789
Payments to and on behalf of employees	(5,811,172)	(5,695,721)
Payments to suppliers and contractors	(5,412,026)	(4,179,126)
Other receipts and payments, net	<u>252,428</u>	<u>447,118</u>
Net Cash Used For Operating Activities	<u>(5,772,055)</u>	<u>(4,193,940)</u>
Noncapital Financing Activities		
Property tax revenue	3,130,032	3,118,318
Noncapital contributions and grants	70,056	614,785
Other non-operating revenues	<u>695,713</u>	<u>129,189</u>
Net Cash From Noncapital Financing Activities	<u>3,895,801</u>	<u>3,862,292</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets, depreciable	(85,986)	(701,345)
Purchase of capital assets, non-depreciable	(249,166)	(57,879)
Capital contributions and grants	<u>202,950</u>	<u>211,200</u>
Net Cash Used For Capital and Capital Related Financing Activities	<u>(132,202)</u>	<u>(548,024)</u>
Investing Activity		
Sale of short-term investments	<u>1,752,719</u>	<u>730,085</u>
Net Change in Cash and Cash Equivalents	(255,737)	(149,587)
Cash and Cash Equivalents, Beginning of Year	<u>2,124,283</u>	<u>2,273,870</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,868,546</u></u>	<u><u>\$ 2,124,283</u></u>

Telluride Hospital District  
 Statements of Cash Flows  
 Years Ended December 31, 2022 and 2021

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	2022	2021
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (5,387,451)	\$ (4,517,980)
Adjustments to reconcile operating loss to cash used for operating activities		
Depreciation	371,904	304,321
Provision for bad debts	126,865	547,958
Changes in assets and liabilities		
Patient receivables	(575,434)	(732,041)
Supplies and prepaids	(67,451)	87,049
Other assets	(4,000)	49,269
Accounts payable	(178,516)	16,892
Accrued compensation and employee benefits	(57,972)	50,592
	\$ (5,772,055)	\$ (4,193,940)
Net Cash used for Operating Activities		

## **Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

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

### **Reporting Entity**

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

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

### **Blended Component Unit**

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

### **Measurement Focus and Basis of Accounting**

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

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

### **Basis of Presentation**

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

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

#### *Restricted net position*

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

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

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

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

### **Use of Estimates**

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

### **Cash and Cash Equivalents**

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

### **Short-Term Investments**

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

### **Patient Receivables**

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

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

### **Property Tax Receivable and Revenues**

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

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

In 2022, the District received \$3,130,032 which was used for the District's general operations. In 2021, the District received \$3,118,318, of which was used for the District's general operations.

### **Supplies**

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

### **Net Investment Return**

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



### Capital Assets

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

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

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

### Compensated Absences

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

### Deferred Inflows of Resources

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

### Operating Revenues and Expenses

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

### Net Patient Service Revenue

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

### **Charity Care**

The District provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the District does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was approximately \$66,000 and \$79,000 for the years ended December 31, 2022 and 2021, calculated by multiplying the ratio of cost to gross charges for the District by the gross uncompensated charges associated with providing charity care to its patients.

### **Grants and Contributions**

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

### **Budgets**

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

### **Note 2 - Net Patient Service Revenue**

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

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

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

Concentration of net revenues by major payor accounted for the following percentages of the District's patient service revenues for the years ended December 31, 2022 and 2021:

	2022	2021
Other third-party payors and patients	65%	71%
Patient self-pay	6%	5%
Medicare	20%	16%
Medicaid	9%	8%
	100%	100%

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

### **Note 3 - Deposits and Investments**

The carrying amounts of deposits and investments as of December 31, 2022 and 2021 are as follows:

	2022	2021
Carrying Amount		
Cash and cash equivalents	\$ 1,868,546	\$ 2,124,283
Short-term investments	243,418	2,056,131
Total carrying amount	\$ 2,111,964	\$ 4,180,414

#### **Deposits – Custodial Credit Risk**

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

The District's maintains its cash in bank deposit accounts which exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At December 31, 2022 and 2021, the District had approximately \$632,000 and \$829,000, respectively, in excess of FDIC-insured limits.

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

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

### **Investments**

The District's investments are reported at fair value. The District is authorized by statute to invest funds in obligations of the United States and certain U.S. government agency securities; commercial paper; local government investment pools; certain money market funds; written repurchase agreements collateralized by certain authorized securities. The District's investments as of December 31, 2022 and 2021 of \$243,418 and \$2,056,131 are invested in Colotrust, a local government investment pool established for local governments in Colorado. These pools operate similar to money market funds and each share is equal in value to \$1. This investment is reported at Net Asset Value per share, as reported by the custodian. State statute limits Colotrust investments to U.S. treasury and U.S. Agency securities and is rated AAAM by Standard and Poor's.

### **Interest Rate Risk**

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

**Note 4 - Capital Assets**

Capital assets additions, retirements, transfers and balances for the years ended December 31, 2022 and 2021 are as follows:

	Balance December 31, 2021	Additions	Retirements	Balance December 31, 2022
Capital assets not being depreciated				
New facility project	\$ 894,371	\$ 249,166	\$ -	\$ 1,143,537
Capital assets being depreciated				
Medical equipment	\$ 2,375,589	\$ 44,880	\$ 1,370	\$ 2,419,099
Building improvements	3,204,666	15,000	140,219	3,079,447
Administrative equipment	922,658	8,350	-	931,008
Furniture and fixtures	79,060	-	-	79,060
Total capital assets being depreciated	6,581,973	\$ 68,230	\$ 141,589	6,508,614
Less accumulated depreciation for				
Medical equipment	1,553,534	\$ 182,790	\$ 18,352	1,717,972
Building improvements	1,524,760	141,589	13,921	1,652,428
Administrative equipment	765,784	46,181	-	811,965
Furniture and fixtures	72,967	1,344	-	74,311
Total accumulated depreciation	3,917,045	\$ 371,904	\$ 32,273	4,256,676
Net capital assets being depreciated	\$ 2,664,928			\$ 2,251,938
Capital assets, net	\$ 3,559,299			\$ 3,395,475

The new facility project represents costs related to the design and construction of a new facility. The new facility is in the planning and site selection phase. There are no commitments at December 31, 2022 related to this project.

Telluride Hospital District  
Notes to the Financial Statements  
December 31, 2022 and 2021

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

**Note 5 - Pension Plans**

**Plan Description and Funding Policy**

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

The District has offered a 401(a) Plan through CCOERA. Under terms of the Plan, all employees who have completed one year of service are eligible to participate. Benefit provisions are contained in the plan document and were established and can be amended by action of the District’s governing body. Participants may defer a portion of their compensation up to specified limits according to the IRC. The District will match 3% of the participants’ contributions monthly. Non-vested benefits will be forfeited. The amounts that were forfeited during the years ended December 31, 2022, 2021, and 2020 were not significant. For the years ended December 31, 2022, 2021, and 2020, the District contributed \$77,619, \$99,273 and \$104,779 to the Plan.

**Note 6 - Concentrations of Credit Risk**

The District grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2022 and 2021 was as follows:

	2022	2021
Other third-party payors and patients	72%	64%
Patient self-pay	16%	22%
Medicare	9%	10%
Medicaid	3%	4%
	100%	100%

**Note 7 - Contingencies**

**Risk Management**

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

### **Malpractice Insurance**

The District has malpractice insurance coverage to provide protection for professional liability losses on an occurrence basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million.

### **Litigation, Claims, and Disputes**

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

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



**Note 8 - Presentation of Component Unit**

The following summarizes combining information for the District and Foundation which has been presented as a blended component unit, as of and for the year ended December 31, 2022.

Statement of net position as of December 31, 2022:

	<u>District</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
<b>Assets</b>				
Total current assets	\$ 4,995,263	\$ 1,846,820	\$ (44,562)	\$ 6,797,521
Total capital assets	3,395,475	-	-	3,395,475
Total other assets	(1,081)	29,680	-	28,599
<b>Total assets</b>	<b><u>\$ 8,389,657</u></b>	<b><u>\$ 1,876,500</u></b>	<b><u>\$ (44,562)</u></b>	<b><u>\$ 10,221,595</u></b>
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>				
Current Liabilities	\$ 819,492	\$ 44,562	\$ (44,562)	\$ 819,492
Deferred Inflows of Resources	3,179,876	-	-	3,179,876
<b>Total liabilities and deferred inflows of resources</b>	<b><u>3,999,368</u></b>	<b><u>44,562</u></b>	<b><u>(44,562)</u></b>	<b><u>3,999,368</u></b>
<b>Net Position</b>				
Net investment in capital assets	3,395,475	-	-	3,395,475
Restricted by donors - expendable	-	62,702	-	62,702
Unrestricted	994,814	1,769,236	-	2,764,050
<b>Total net position</b>	<b><u>4,390,289</u></b>	<b><u>1,831,938</u></b>	<b><u>-</u></b>	<b><u>6,222,227</u></b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b><u>\$ 8,389,657</u></b>	<b><u>\$ 1,876,500</u></b>	<b><u>\$ (44,562)</u></b>	<b><u>\$ 10,221,595</u></b>

Telluride Hospital District  
Notes to the Financial Statements  
December 31, 2022 and 2021

Operating results and changes in net position for the year ended December 31, 2022:

	<u>District</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Operating Revenues				
Net patient service revenue, net of provision for bad debts of \$126,865	\$ 5,647,284	\$ -	\$ -	\$ 5,647,284
Other revenue	256,428	-	-	256,428
Total operating revenues	<u>5,903,712</u>	<u>-</u>	<u>-</u>	<u>5,903,712</u>
Operating Expenses				
Other operating expenses	10,694,410	676,718	(451,869)	10,919,259
Depreciation	371,904	-	-	371,904
Total operating expenses	<u>11,066,314</u>	<u>676,718</u>	<u>(451,869)</u>	<u>11,291,163</u>
Operating Loss	(5,162,602)	(676,718)	451,869	(5,387,451)
Nonoperating revenues, net	<u>3,542,930</u>	<u>617,674</u>	<u>(451,869)</u>	<u>3,708,735</u>
Revenues in Excess of Expenses Before Capital Contributions and Grants	(1,619,672)	(59,044)	-	(1,678,716)
Capital Contributions and Grants	<u>-</u>	<u>202,950</u>	<u>-</u>	<u>202,950</u>
Change in Net Position	(1,619,672)	143,906	-	(1,475,766)
Net Position, Beginning of Year	<u>6,009,961</u>	<u>1,688,032</u>	<u>-</u>	<u>7,697,993</u>
Net Position, End of Year	<u>\$ 4,390,289</u>	<u>\$ 1,831,938</u>	<u>\$ -</u>	<u>\$ 6,222,227</u>

Cash flows for the year ended December 31, 2022:

	<u>District</u>	<u>Foundation</u>	<u>Combined</u>
Net Cash used for Operating Activities	\$ (5,022,673)	\$ (749,382)	\$ (5,772,055)
Net Cash from Noncapital Financing Activities	3,204,808	690,993	3,895,801
Net Cash from (used for) Capital Related Financing Activities	(335,152)	202,950	(132,202)
Net Cash from (used for) Investing Activities	<u>1,826,038</u>	<u>(73,319)</u>	<u>1,752,719</u>
Net Change in Cash and Cash Equivalents	(326,979)	71,242	(255,737)
Cash and Cash Equivalents, Beginning of Year	<u>354,952</u>	<u>1,769,331</u>	<u>2,124,283</u>
Cash and Cash Equivalents, End of Year	<u>\$ 27,973</u>	<u>\$ 1,840,573</u>	<u>\$ 1,868,546</u>

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

Statement of net position as of December 31, 2021:

	District	Foundation	Eliminations	Combined
<b>Assets</b>				
Total current assets	\$ 6,584,973	\$ 1,808,816	\$ (146,464)	\$ 8,247,325
Total capital assets	3,559,299	-	-	3,559,299
Total other assets	(1,081)	25,680	-	24,599
	<u>\$ 10,143,191</u>	<u>\$ 1,834,496</u>	<u>\$ (146,464)</u>	<u>\$ 11,831,223</u>
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>				
<b>Current Liabilities</b>	\$ 1,055,980	\$ 115,897	\$ (115,897)	\$ 1,055,980
<b>Deferred Inflows of Resources</b>	<u>3,077,250</u>	<u>-</u>	<u>-</u>	<u>3,077,250</u>
	<u>4,133,230</u>	<u>115,897</u>	<u>(115,897)</u>	<u>4,133,230</u>
<b>Net Position</b>				
Net investment in capital assets	3,559,299	-	-	3,559,299
Restricted by donors - expendable	-	734,356	-	734,356
Unrestricted components				
Unrestricted	<u>2,450,662</u>	<u>953,676</u>	<u>-</u>	<u>3,404,338</u>
	<u>6,009,961</u>	<u>1,688,032</u>	<u>-</u>	<u>7,697,993</u>
	<u>\$ 10,143,191</u>	<u>\$ 1,803,929</u>	<u>\$ (115,897)</u>	<u>\$ 11,831,223</u>

Telluride Hospital District  
Notes to the Financial Statements  
December 31, 2022 and 2021

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

	District	Foundation	Eliminations	Combined
Operating Revenues				
Net patient service revenue, net of provision for bad debts of \$547,958	\$ 5,417,872	\$ -	\$ -	\$ 5,417,872
Other revenue	423,529	-	-	423,529
Total operating revenues	<u>5,841,401</u>	<u>-</u>	<u>-</u>	<u>5,841,401</u>
Operating Expenses				
Other operating expenses	9,941,132	806,426	(692,498)	10,055,060
Depreciation	304,321	-	-	304,321
Total operating expenses	<u>10,245,453</u>	<u>806,426</u>	<u>(692,498)</u>	<u>10,359,381</u>
Operating Loss	(4,404,052)	(806,426)	692,498	(4,517,980)
Nonoperating revenues, net	<u>5,054,985</u>	<u>231,126</u>	<u>(692,498)</u>	<u>4,593,613</u>
Revenues in Excess of Expenses Before Capital Contributions and Grants	650,933	(575,300)	-	75,633
Capital Contributions and Grants	<u>-</u>	<u>211,200</u>	<u>-</u>	<u>211,200</u>
Change in Net Position	650,933	(364,100)	-	286,833
Net Position, Beginning of Year	<u>5,359,028</u>	<u>2,052,132</u>	<u>-</u>	<u>7,411,160</u>
Net Position, End of Year	<u>\$ 6,009,961</u>	<u>\$ 1,688,032</u>	<u>\$ -</u>	<u>\$ 7,697,993</u>

Cash flows for the year ended December 31, 2021:

	District	Foundation	Combined
Net Cash used for Operating Activities	\$ (3,728,514)	\$ (465,426)	\$ (4,193,940)
Net Cash from Noncapital Financing Activities	3,754,679	107,613	3,862,292
Net Cash from (used for) Capital Related Financing Activities	(759,224)	211,200	(548,024)
Net Cash from Investing Activities	<u>726,006</u>	<u>4,079</u>	<u>730,085</u>
Net Change in Cash and Cash Equivalents	(7,053)	(142,534)	(149,587)
Cash and Cash Equivalents, Beginning of Year	<u>362,005</u>	<u>1,911,865</u>	<u>2,273,870</u>
Cash and Cash Equivalents, End of Year	<u>\$ 354,952</u>	<u>\$ 1,769,331</u>	<u>\$ 2,124,283</u>



Supplementary Information  
December 31, 2022 and 2021  
**Telluride Hospital District**



## Independent Auditor's Report on Supplementary Information

The Board of Directors  
Telluride Hospital District  
Telluride, Colorado

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

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

*Eide Bailly LLP*

Fargo, North Dakota  
July 31, 2023

Telluride Hospital District  
Schedule of Budgeted and Actual Revenues and Expenses  
December 31, 2022 and 2021

	Actual	Budgeted	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 5,647,284	\$ 5,362,500	\$ 284,784
Other revenue	256,428	245,300	11,128
	<u>5,903,712</u>	<u>5,607,800</u>	<u>295,912</u>
Operating Expenses			
Salaries and wages	4,859,180	4,606,000	(253,180)
Employee benefits	894,020	946,500	52,480
Professional and contract services	3,730,767	3,303,403	(427,364)
Supplies	499,462	542,702	43,240
Depreciation	371,904	365,500	(6,404)
Information technology	202,604	149,000	(53,604)
Occupancy	460,491	446,165	(14,326)
Other	272,735	21,582	(251,153)
	<u>11,291,163</u>	<u>10,380,852</u>	<u>(910,311)</u>
Operating Loss	(5,387,451)	(4,773,052)	(614,399)
Nonoperating Revenues, net	3,708,735	3,355,369	353,366
Capital Contributions and Grants	<u>202,950</u>	<u>-</u>	<u>202,950</u>
Change in Net Position	<u>\$ (1,475,766)</u>	<u>\$ (1,417,683)</u>	<u>\$ (58,083)</u>

**Notes to Schedule**

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



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

The Board of Directors  
Telluride Hospital District  
Telluride, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Telluride Hospital District (District) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated July 31, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as items 2022-001 to be a material weakness.



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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as item 2022-002 to be a significant deficiency.

### **Report on Compliance and Other Matters**

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

### **District's Response to Findings**

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

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



Fargo, North Dakota  
July 31, 2023

**2022-001      Preparation of Financial Statements and Adjusting Journal Entries  
Material Weakness in Internal Control over Financial Reporting**

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

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

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

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

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

*Views of responsible officials* – Due to cost considerations, the District will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

**2022-002      Limited Size of Office  
Significant Deficiency in Internal Control over Financial Reporting**

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

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

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

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

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

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