Reports of Independent Auditors and
Financial Statements with
Supplementary Information

Telluride Hospital District

December 31, 2023 and 2022

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Report of Independent Auditors

The Board of Directors
Telluride Hospital District

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Telluride Hospital District (the District), which comprise the statement of net position as of December 31, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and the related notes to the financial statements.

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

Basis for Opinion

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

Prior Period Financial Statements

The financial statements of the District for the year ended December 31, 2022, were audited by another auditor, who expressed an unmodified opinion on those statements on July 31, 2023.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The schedule of budgeted and actual revenues and expenses 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 schedule of budgeted and actual revenues and expenses is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2024, 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.

Moss Adams LLP

Dallas, Texas
July 25, 2024

Management's Discussion and Analysis

Introduction

Management's discussion and analysis of Telluride Hospital District's (the District) financial performance provides an overview of the District's financial activities for the years ended December 31, 2023, 2022, and 2021. It should be read in conjunction with the District's financial statements.

Financial Highlights

- The District's net position decreased by $2,460,097 or 39.5% in 2023, decreased by $1,475,766 or 19.2% in 2022, increased by $286,833 or 3.9% in 2021.
- Total operating revenues decreased $1,205,703 or 21.5% in 2023, decreased by $223,213 or 3.8% in 2022, increased by $133,527 or 2.3% in 2021.
- Operating expenses decreased by $507,531 or 4.6%, increased by $646,258 or 6.2% in 2022, increased by $232,129 or 2.3% in 2021.
- The District reported operating losses of $6,085,623 in 2023, $5,387,451 in 2022, and $4,517,980 in 2021.
- Nonoperating revenues decreased by $118,859 or 3.2% in 2023, $884,878 or 19.3% in 2022, $857,989 or 15.7% in 2021.

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 non-financial net position is an indicator of whether its financial health is improving or deteriorating. Other 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.

Additionally, in 2023, we received a Mill Levy to be paid out in 2024 in the amount of $7.4 million. This is an increase of approximately $4 million from previous years' levies. This levy continues in perpetuity unless the taxpayers vote to change or rescind.

Another change in 2023 was a switch to a new Revenue Cycle Management vendor in October 2023 which has shown an improvement in billing collections.

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 capital and noncapital 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 $2,429,194 or 39.0% in 2023, $1,475,766 or 19.2% in 2022 and increased by $286,833 or 3.9% in 2021 as shown below:

	2023	2022	2021
ASSETS			
Current assets	$ 11,375,072	$ 6,797,521	$ 8,247,325
Capital assets, net	2,101,594	3,395,475	3,559,299
Other noncurrent assets	25,680	28,599	24,599
Total assets	$ 13,502,346	$ 10,221,595	$ 11,831,223
LIABILITIES			
Current liabilities	$ 1,333,778	$ 819,492	$ 1,055,980
Noncurrent liabilities	950,000	-	-
Total liabilities	2,283,778	819,492	1,055,980
DEFERRED INFLOWS OF RESOURCES	7,456,438	3,179,876	3,077,250
NET POSITION			
Net investment in capital assets	2,101,594	3,395,475	3,559,299
Restricted by donors - expendable	272,198	62,702	734,356
Unrestricted	1,388,338	2,764,050	3,404,338
Total net position	3,762,130	6,222,227	7,697,993
Total liabilities, deferred inflows of resources, and net position	$ 13,502,346	$ 10,221,595	$ 11,831,223

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 2023, 2022 and 2021. Net position decreased in 2023 and 2022 and increased in 2021.

	2023	2022	2021
OPERATING REVENUES			
Net patient service revenue	$ 4,263,407	$ 5,361,760	$ 5,417,872
Other operating revenue	149,078	256,428	423,529
Total operating revenue	4,412,485	5,618,188	5,841,401
OPERATING EXPENSES			
Salaries, wages, and employee benefits	5,499,506	5,753,200	5,780,516
Supplies, professional fees, and other	4,628,450	4,880,535	4,274,544
Depreciation and amortization	370,152	371,904	304,321
Total operating expenses	10,498,108	11,005,639	10,359,381
Operating loss	(6,085,623)	(5,387,451)	(4,517,980)
NONOPERATING REVENUES			
Property taxes	3,229,702	3,130,032	3,118,318
Noncapital contributions and donations	169,757	70,056	614,785
Loss on disposal of capital assets	(969,407)	(127,072)	-
Forgiveness of Paycheck Protection Program Loan	-	-	725,551
Net investment return	53,700	(59,994)	5,770
Community support activities and other	1,106,124	695,713	129,189
Nonoperating revenues, net	3,589,876	3,708,735	4,593,613
(Deficit) excess of revenues over expenses before capital contributions and grants	(2,495,747)	(1,678,716)	75,633
CAPITAL CONTRIBUTIONS AND GRANTS	35,650	202,950	211,200
CHANGE IN NET POSITION	(2,460,097)	(1,475,766)	286,833
NET POSITION, beginning of year	6,222,227	7,697,993	7,411,160
NET POSITION, end of year	$ 3,762,130	$ 6,222,227	$ 7,697,993

Operating Loss

The first component of the overall change in the District's net position is its operating loss the difference between operating revenues and the expenses incurred to perform those services. The District reported operating losses of $6.1 million in 2023, $5.4 million in 2022, and $4.5 million in 2021.

Net patient service revenues decreased approximately $1.1 million to approximately $4.3 million in 2023, decreased approximately $56,000 to approximately $5.4 million 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 decreased from approximately $11.0 million in 2022 to approximately $10.5 million in 2023, and increased to approximately $10.4 million from 2020 to 2021, an increase of 2.3%. The increases in 2022 and 2021 are 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 2023, 2022, and 2021 the District had $2,092,831, $3,395,475, and $3,559,299 invested in capital assets, net of accumulated depreciation. During 2023, the District invested approximately $46,000 in new capital assets, primarily for administrative equipment. During 2022, the District invested approximately $335,000 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.

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. The Medical Center operates with significant changes in monthly volume due to the highly seasonal nature of a ski resort town which negatively affects operating margins. Additionally, to support the local community, we operate an Emergency Room service which, due to seasonality and overall low volumes compared to cost, operates at a deficit.

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.

Financial Statements

Telluride Hospital District
Statements of Net Position
December 31, 2023 and 2022

ASSETS

	2023	2022
CURRENT ASSETS		
Cash and cash equivalents	$ 1,976,011	$ 1,379,862
Investments	731,811	732,102
Receivables		
Patient, net of estimated uncollectibles of approximately $562,000 and $392,000 in 2023 and 2022	1,126,937	1,264,337
Property taxes receivable	7,456,438	3,179,876
Supplies and prepaid expenses	83,875	241,344
Total current assets	11,375,072	6,797,521
CAPITAL ASSETS, net	2,101,594	3,395,475
OTHER ASSETS	25,680	28,599
Total assets	$ 13,502,346	$ 10,221,595

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2023	2022
CURRENT LIABILITIES		
Accounts payable	$ 174,565	$ 141,146
Accrued compensation and employee benefits	509,213	678,346
Current portion of municipality funds payable	650,000	-
Total current liabilities	1,333,778	819,492
MUNICIPALITY FUNDS PAYABLE, net of current portion	950,000	-
Total liabilities	2,283,778	819,492
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	7,456,438	3,179,876
NET POSITION		
Net investment in capital assets	2,101,594	3,395,475
Restricted by donors - expendable	272,198	62,702
Unrestricted	1,388,338	2,764,050
Total net position	3,762,130	6,222,227
Total liabilities, deferred inflows of resources, and net position	$ 13,502,346	$ 10,221,595

See accompanying notes.

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

	2023	2022
OPERATING REVENUES		
Net patient service revenue, net of provision for bad debts of $529,949 and $126,865 in 2023 and 2022	$ 4,263,407	$ 5,361,760
Other operating revenue	149,078	256,428
Total operating revenues	4,412,485	5,618,188
OPERATING EXPENSES		
Salaries and wages	4,371,697	4,859,180
Employee benefits	1,127,809	894,020
Professional and contract services	3,118,275	3,445,243
Supplies	769,673	499,462
Depreciation	370,152	371,904
Information technology	221,693	202,604
Occupancy	372,122	460,491
Other	146,687	272,735
Total operating expenses	10,498,108	11,005,639
OPERATING LOSS	(6,085,623)	(5,387,451)
NONOPERATING REVENUES (EXPENSES)		
Property tax revenue	3,229,702	3,130,032
Noncapital contributions and grants	169,757	70,056
Loss on disposal of capital assets	(969,407)	(127,072)
Investment income (loss), net	53,700	(59,994)
Community support activities	1,106,124	690,993
Other	-	4,720
Total nonoperating revenues, net	3,589,876	3,708,735
DEFICIT OF REVENUES OVER EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	(2,495,747)	(1,678,716)
CAPITAL CONTRIBUTIONS AND GRANTS	35,650	202,950
CHANGE IN NET POSITION	(2,460,097)	(1,475,766)
NET POSITION, beginning of year	6,222,227	7,697,993
NET POSITION, end of year	$ 3,762,130	$ 6,222,227

See accompanying notes.

Telluride Hospital District
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patient services	$ 4,400,807	$ 4,913,191
Payments to and on behalf of employees	(5,668,639)	(5,811,172)
Payments to suppliers and contractors	(4,437,562)	(5,126,502)
Other receipts and payments, net	151,997	252,428
Net cash from operating activities	(5,553,397)	(5,772,055)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property tax revenue	3,229,702	3,130,032
Noncapital contributions and grants	169,757	70,056
Community support activities	1,106,124	690,993
Other nonoperating revenues	-	64,714
Municipality funds received	1,600,000	-
Net cash from noncapital financing activities	6,105,583	3,955,795
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchase of capital assets, depreciable	(45,678)	(85,986)
Purchase of capital assets, non- depreciable	-	(249,166)
Capital contributions and grants	35,650	202,950
Net cash from capital financing activities	(10,028)	(132,202)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,551,023)	-
Proceeds from sale of investments	1,551,314	1,264,035
Investment income (loss)	53,700	(59,994)
Net cash from investing activities	53,991	1,204,041
NET CHANGE IN CASH AND CASH EQUIVALENTS	596,149	(744,421)
CASH AND CASH EQUIVALENTS, beginning of year	1,379,862	2,124,283
CASH AND CASH EQUIVALENTS, end of year	$ 1,976,011	$ 1,379,862

See accompanying notes.

Telluride Hospital District
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	$ (6,085,623)	$ (5,387,451)
Adjustments to reconcile operating loss to cash used for operating activities		
Depreciation	370,152	371,904
Provision for bad debts	529,949	126,865
Changes in assets and liabilities		
Patient receivables	(392,549)	(575,434)
Supplies and prepaid expenses	157,469	(67,451)
Other assets	2,919	(4,000)
Accounts payable	33,419	(178,516)
Accrued compensation and employee benefits	(169,133)	(57,972)
Net cash used for operating activities	$ (5,553,397)	$ (5,772,055)

See accompanying notes.

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 (the 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.

Restricted net position, nonexpendable – Nonexpendable net position is subject to externally imposed stipulations, which require them to be maintained permanently by the District. There was no restricted net position, nonexpendable as of December 31, 2023 or 2022.

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.

Recent accounting pronouncements – GASB Statement No. 96, *Subscription-based Information Technology Arrangements,* was adopted effective January 1, 2023. The objective of this statement is to provide uniform guidance for accounting and financial reporting for transactions that meet the definition of subscription-based information technology arrangements (SBITAs). This statement defines a SBITA, established that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA. The adoption of this standard resulted in no effect to the beginning asset or liability of the District related to SBITA assets and there was no impact to the net position of the District.

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The District did not have any such arrangements as of December 31, 2023.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections.* An amendment to Statement 62, the standard clarifies practice by providing guidance for changes in the financial reporting entity, accounting principles, and estimates used to prepare financial information. The new standard also prescribes the treatment for the correction of errors in previously issued financial statements. The requirements of this statement apply to the financial statements of all state and local governments. The statement will be effective for the year-end December 31, 2024. The District is evaluating the impact the standard will have on its financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objectives of this statement are to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement apply to the financial statements of all state and local governments. The statement will be effective for the year-end December 31, 2024. The District is evaluating the impact the standard will have on its financial statements.

Implementation Guide No. 2021-1, *Implementation Guidance Update—2021*. The implementation guide 2021 states that it may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. The statement will be effective for the year-end December 31, 2024. The Center is evaluating the impact the standard will have on its financial statements.

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.

Investments and investment income – Investments are measured at fair value in the accompanying statements of net position. Interest, dividends, gains, and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

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 represents 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 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 2023 and 2022, the District received $3,229,702 and $3,130,032, respectively, 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.

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
Furniture and fixtures	10 – 15 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.

The District evaluates capital assets for impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Assets to be disposed of would be recognized at the lower of carrying value or fair value less the estimated cost of disposal. Assets that are held and in use are reviewed for impairment whenever indicators of impairment exist. All recognized impairment losses, whether for assets to be disposed of or assets to be held and used, are recorded as operating expenses. No impairments have been identified as of December 31, 2023 and 2022.

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 that 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 $68,000 and $66,000 for the years ended December 31, 2023 and 2022, respectively; it is 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 nonoperating that are unrestricted or that are restricted to a specific operating purpose are reported as revenues. Amounts restricted to capital acquisitions are reported after deficit of revenues over expenses. Contributions made directly to the Foundation are included in community support activities on the accompanying statement of revenues, expenses, and changes in net position.

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.

Reclassifications – Certain reclassifications have been made in 2022 balances to conform to the 2023 presentation. The previously reported net position and change in net position are unaffected by these reclassifications.

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, 2023 and 2022:

	2023	2022
Other third-party payors and patients	77%	65%
Patient self-pay	6%	6%
Medicare	11%	20%
Medicaid	6%	9%
	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. Changes in estimates resulted in a net decrease to net patient service revenues of approximately $300,000 for the year ended December 31, 2023. Changes in estimates resulted in a net increase to net patient service revenues of approximately $180,000 for the year ended December 31, 2022.

Note 3 – Deposits and Investments

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

	2023	2022
Cash and cash equivalents		
Checking accounts	$ 1,179,965	$ 1,142,175
Money market	796,046	237,687
Total cash and cash equivalents	1,976,011	1,379,862
Investments		
Colotrust	15,833	243,418
Exchange traded funds		
Fixed income	633,009	413,756
Equities	82,969	74,928
Total investments	731,811	732,102
	$ 2,707,822	$ 2,111,964

The District's investments are reported at fair value. The District's investments as of December 31, 2023 and 2022, include $15,833 and $243,418, respectively, of investments 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 AAA by Standard and Poor's.

The District's deposits and investments were subject to the following risks at December 31, 2023 and 2022:

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, 2023 and 2022, the District had approximately $1,418,000 and $632,000, 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.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributable to the magnitude of the District's investment in a single issuer. The District does not have a formal policy limiting the amount of investments or deposits at any single institution or with any single issuer.

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.

Fair value measurement – The District utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 – Consists of quoted prices (unadjusted) in the active markets for identical assets or liabilities accessible at the measurement date.

Level 2 – Include inputs other than quoted prices in Level 1 directly or indirectly observable for the assets or liabilities.

Level 3 – Are unobservable inputs for the assets or liabilities.

The table below presents the amounts within each valuation hierarchy level for those assets measured at fair value (investments) based on the inputs used to value them as of December 31, 2023 and 2022:

	2023			
	Level 1	Level 2	Level 3	Total
Investments, at fair value				
Exchange traded funds				
Fixed income	$ 633,009	$ -	$ -	$ 633,009
Equities	82,969	-	-	82,969
	$ 715,978	$ -	$ -	715,978
Investments measured at NAV (practical expedient)				15,833
Total				$ 731,811

	2022			
	Level 1	Level 2	Level 3	Total
Investments, at fair value				
Exchange traded funds				
Fixed income	$ 413,756	$ -	$ -	$ 413,756
Equities	74,928	-	-	74,928
	$ 488,684	$ -	$ -	488,684
Investments measured at NAV (practical expedient)				243,418
Total				$ 732,102

Investment income (loss) – Investment income (loss) from these investments consists of the following as of December 31, 2023 and 2022:

	2023	2022
Interest and dividends	$ 31,872	$ 10,066
Net realized gains (losses)	10,017	(86,410)
Change in accumulated unrealized gains and losses	11,811	16,350
Investment income (loss), net	$ 53,700	$ (59,994)

Note 4 – Capital Assets

Capital assets additions, retirements, and balances for the years ended December 31, 2023 and 2022, are as follows:

	Balance December 31, 2022	Additions	Retirements	Balance December 31, 2023
Capital assets not being depreciated				
New facility project	$ 1,143,537	$ -	$ (829,495)	$ 314,042
Capital assets being depreciated				
Medical equipment	2,419,099	8,763	(44,881)	2,382,981
Building improvements	3,079,447	1,852	(97,014)	2,984,285
Administrative equipment	931,008	35,063	-	966,071
Furniture and fixtures	79,060	-	-	79,060
Total capital assets being depreciated	6,508,614	45,678	(141,895)	6,412,397
Less accumulated depreciation				
Medical equipment	1,717,972	190,674	(1,983)	1,906,663
Building improvements	1,652,428	102,299	-	1,754,727
Administrative equipment	811,965	75,834	-	887,799
Furniture and fixtures	74,311	1,345	-	75,656
Total accumulated depreciation	4,256,676	370,152	(1,983)	4,624,845
Net capital assets being depreciated	2,251,938	(324,474)	(139,912)	1,787,552
Capital assets, net	$ 3,395,475	$ (324,474)	$ (969,407)	$ 2,101,594

	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				
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	(303,674)	(109,316)	2,251,938
Capital assets, net	$ 3,559,299	$ (54,508)	$ (109,316)	$ 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, 2023, related to this project. During the year ended December 31, 2023, management wrote off previously capitalized costs of $829,495 related to this project due to changes in the scope and status of the project.

Note 5 – Municipality Funds Payable

During the year ended December 31, 2023, the District received a promissory note from the Town of Telluride for $650,000. The note is zero-interest, and the principal is due in full on October 31, 2024. The full balance of the note is included in the current portion of municipality funds payable at December 31, 2023.

Also during the year ended December 31, 2023, the District received $650,000 and $300,000 from the Town of Mountain Village and San Miguel County, respectively. There is no explicit obligation to repay these funds. The District is currently assessing the use and retention of these funds and has recorded the full amount as a noncurrent liability at December 31, 2023.

Note 6 – 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. For the years ended December 31, 2023 and 2022, the District contributed $65,881 and $77,619, respectively, to the Plan.

Note 7 – 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, 2023 and 2022, was as follows:

	2023	2022
Other third-party payors and patients	66%	72%
Patient self-pay	17%	16%
Medicare	9%	9%
Medicaid	8%	3%
	100%	100%

Note 8 – 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 9 – 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, 2023.

The combining statement of net position as of December 31, 2023, is presented below:

	District	Foundation	Eliminations	Combined
Assets				
Total current assets	$ 9,581,404	$ 1,845,697	$ (52,029)	$ 11,375,072
Capital assets, net	2,101,594	-	-	2,101,594
Other noncurrent assets	-	25,680	-	25,680
Total assets	$ 11,682,998	$ 1,871,377	$ (52,029)	$ 13,502,346
Liabilities, deferred inflows of resources, and net position				
Current liabilities	$ 1,333,778	$ 52,029	$ (52,029)	$ 1,333,778
Noncurrent liabilities	950,000	-	-	950,000
Deferred inflows of resources	7,456,438	-	-	7,456,438
Total liabilities and deferred inflows of resources	9,740,216	52,029	(52,029)	9,740,216
Net position				
Net investment in capital assets	2,101,594	-	-	2,101,594
Restricted by donors - expendable	-	272,198	-	272,198
Unrestricted	(158,812)	1,547,150	-	1,388,338
Total net position	1,942,782	1,819,348	-	3,762,130
Total liabilities, deferred inflows of resources, and net position	$ 11,682,998	$ 1,871,377	$ (52,029)	$ 13,502,346

The combining statement of changes in revenues, expenses, and changes in net position for the year ended December 31, 2023, is presented below:

	District	Foundation	Eliminations	Combined
Operating revenues				
Net patient service revenue	$ 4,263,407	$ -	$ -	$ 4,263,407
Other revenue	149,078	-	-	149,078
Total operating revenues	4,412,485	-	-	4,412,485
Operating expenses				
Other operating expenses	10,049,532	1,179,147	(1,100,723)	10,127,956
Depreciation	370,152	-	-	370,152
Total operating expenses	10,419,684	1,179,147	(1,100,723)	10,498,108
Operating loss	(6,007,199)	(1,179,147)	1,100,723	(6,085,623)
Nonoperating revenues, net	3,559,692	1,130,907	(1,100,723)	3,589,876
Deficit of revenues in excess of expenses before capital contributions and grants	(2,447,507)	(48,240)	-	(2,495,747)
Capital contributions and grants	-	35,650	-	35,650
Change in net position	(2,447,507)	(12,590)	-	(2,460,097)
Net position, beginning of year	4,390,289	1,831,938	-	6,222,227
Net position, end of year	$ 1,942,782	$ 1,819,348	$ -	$ 3,762,130

The combining statement of cash flows for the year ended December 31, 2023, is presented below:

	District	Foundation	Eliminations	Combined
Net cash flows from				
Operating activities	$ (4,391,964)	$ (1,161,433)	$ -	$ (5,553,397)
Noncapital financing activities	5,026,937	1,078,646	-	6,105,583
Capital financing activities	(45,678)	35,650	-	(10,028)
Investing activities	229,024	(175,033)	-	53,991
Net change in cash and cash equivalents	818,319	(222,170)	-	596,149
Cash and cash equivalents, beginning of year	27,973	1,351,889	-	1,379,862
Cash and cash equivalents, end of year	$ 846,292	$ 1,129,719	$ -	$ 1,976,011

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:

The combining statement of net position as of December 31, 2022, is presented below:

	District	Foundation	Eliminations	Combined
Assets				
Total current assets	$ 4,995,263	$ 1,846,820	$ (44,562)	$ 6,797,521
Capital assets, net	3,395,475	-	-	3,395,475
Other noncurrent assets	(1,081)	29,680	-	28,599
Total assets	$ 8,389,657	$ 1,876,500	$ (44,562)	$ 10,221,595
Liabilities, deferred inflows of resources, and net position				
Current liabilities	$ 819,492	$ 44,562	$ (44,562)	$ 819,492
Deferred inflows of resources	3,179,876	-	-	3,179,876
Total liabilities and deferred inflows of resources	3,999,368	44,562	(44,562)	3,999,368
Net position				
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
Total net position	4,390,289	1,831,938	-	6,222,227
Total liabilities, deferred inflows of resources, and net position	$ 8,389,657	$ 1,876,500	$ (44,562)	$ 10,221,595

The combining statement of changes in revenues, expenses, and changes in net position for the year ended December 31, 2022, is presented below:

	District	Foundation	Eliminations	Combined
Operating revenues				
Net patient service revenue	$ 5,361,760	$ -	$ -	$ 5,361,760
Other revenue	256,428	-	-	256,428
Total operating revenues	5,618,188	-	-	5,618,188
Operating expenses				
Other operating expenses	10,408,886	676,718	(451,869)	10,633,735
Depreciation	371,904	-	-	371,904
Total operating expenses	10,780,790	676,718	(451,869)	11,005,639
Operating loss	(5,162,602)	(676,718)	451,869	(5,387,451)
Nonoperating revenues, net	3,542,930	617,674	(451,869)	3,708,735
Deficit of revenues in excess of expenses before capital contributions and grants	(1,619,672)	(59,044)	-	(1,678,716)
Capital contributions and grants	-	202,950	-	202,950
Change in net position	(1,619,672)	143,906	-	(1,475,766)
Net position, beginning of year	6,009,961	1,688,032	-	7,697,993
Net position, end of year	$ 4,390,289	$ 1,831,938	$ -	$ 6,222,227

The combining statement of cash flows for the year ended December 31, 2022, is presented below:

	District	Foundation	Eliminations	Combined
Net cash flows from				
Operating activities	$ (5,022,673)	$ (749,382)	$ -	$ (5,772,055)
Noncapital financing activities	3,204,808	750,987	-	3,955,795
Capital financing activities	(335,152)	202,950	-	(132,202)
Investing activities	1,826,038	(621,997)	-	1,204,041
Net change in cash and cash equivalents	(326,979)	(417,442)	-	(744,421)
Cash and cash equivalents, beginning of year	354,952	1,769,331	-	2,124,283
Cash and cash equivalents, end of year	$ 27,973	$ 1,351,889	$ -	$ 1,379,862

Supplementary Information

Telluride Hospital District
Schedule of Budgeted and Actual Revenues and Expenses
December 31, 2023

	Actual	Budgeted	Favorable (Unfavorable) Variance
OPERATING REVENUES			
Net patient service revenue	$ 4,263,407	$ 6,374,934	$ (2,111,527)
Other revenue	149,078	310,800	(161,722)
	4,412,485	6,685,734	(2,273,249)
OPERATING EXPENSES			
Salaries and wages	4,371,697	5,029,700	658,003
Employee benefits	1,127,809	1,069,900	(57,909)
Professional and contract services	3,118,275	2,763,900	(354,375)
Supplies	769,673	595,400	(174,273)
Depreciation	370,152	364,200	(5,952)
Information technology	221,693	263,100	41,407
Occupancy	372,122	509,800	137,678
Other	146,687	16,300	(130,387)
	10,498,108	10,612,300	114,192
Operating loss	(6,085,623)	(3,926,566)	(2,159,057)
NONOPERATING REVENUE, net	3,589,876	3,936,576	(346,700)
CAPITAL CONTRIBUTIONS AND GRANTS	35,650	-	35,650
CHANGE IN NET POSITION	$ (2,460,097)	$ 10,010	$ (2,470,107)

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).

MOSSADAMS

Report of Independent Auditors 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

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 (the District), which comprise the statement of net position as of December 31, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated July 25, 2024.

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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002 that we consider to be material weaknesses.

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

The 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 the response.

Purpose of this Report

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

Moss Adams LLP

Dallas, Texas
July 25, 2024

2023-001 – Financial Close and Reporting Processes (Material Weakness in Internal Control over Financial Reporting)

Criteria – A critical component to ensuring accurate financial statements throughout the year as well as at year-end is an adequate financial close and reporting process. This process should include accurately recording monthly journal entries and performing monthly account reconciliations of the balance sheet accounts.

Condition – During 2023, there were several accounts that were not reconciled during the year and others that were reconciled, but not on a timely basis. Additionally, there were various journal entries recorded during the year that had errors and were not discovered due to the lack of a reconciliation process. Due to the lack of reconciliations, accurate monthly financial statements were not available in fiscal year 2023. Areas requiring significant audit adjustments include:

- Investment account activity had not been properly recorded during the year. Adjustments were required to correct investment balances and record investment income.
- Patient accounts receivable had not been reconciled to subsidiary ledgers during the year. Additionally, an adequate methodology was not in place to accurately estimate an allowance for uncollectible balances at year end. Adjustments were required to correct the balance of patient accounts receivable.
- Property taxes receivable and corresponding deferred inflows had not been recorded as of year-end. Adjustments were required to record the tax levy receivable and deferred inflow.
- Capital assets had not been accurately tracked or reconciled during the year, including the recording of depreciation. Supporting records had not been maintained for assets capitalized in previous years. Adjustments were required to adjust the balance of capital assets.
- Contributions and distributions and due to/from balances between the Medical Center and the Foundation had not been accurately tracked or reconciled during the year. Adjustments were required to accurately eliminate the transactions and balances.
- Contributions to and use of net assets with donor restrictions had not been accurately tracked or reconciled during the year. Adjustments were required to correct the balance of net assets with donor restrictions.
- Accounts payable and accrued liabilities had not been accurately reconciled to subledgers during the year. Additionally, expenses incurred during the year but not paid until after year end had not been properly accrued for at year end. Adjustments were required to correct the balance of accounts payable and accrued liabilities.
- Management did not timely assess the impact of adoption of GASB Statement No. 87 – *Leases,* effective January 1, 2022, or GASB Statement No. 96 – *Subscription-based Information Technology Arrangements*, effective January 1, 2023. Neither standard had an impact to financial statement balances upon adoption, however management should be assessing the impact prior to the effective date and evaluating new contracts subsequent to the adoption date under the new guidance to ensure all contracts are properly recorded.
- Management did not record the audit adjustments from the 2022 audit. Accordingly, beginning net position did not roll. Adjustments were required to correct the balance.

Cause – This deficiency is partially due to the limited resources and significant turnover of key positions in the financial reporting process.

Effect – Numerous post-close adjustments, both identified by management and proposed by the auditors, were required to correct various income statement and balance sheet accounts due to the lack of reconciliations.

Recommendation – We recommend that the District reconcile all balance sheet accounts each month. This requires the design and implementation of processes and controls to ensure that the reconciliations are prepared and reviewed on a timely basis. We also recommend that controls are implemented around the posting of manual journal entries to ensure that there is proper review of journal entries by an individual other than the preparer prior to the posting of those entries. Additionally, we recommend that management ensure that new accounting pronouncements are tracked and adopted timely.

Views of Responsible Officials – Management recognizes previous leadership did not have these controls in place. This is being corrected in 2024. Finance Director, hired March 2024, will accurately record monthly journal entries, and perform monthly reconciliations of balance sheet accounts.

2023-002 – Segregation of Duties (Material Weakness 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 – 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.

Views of Responsible Officials – Management agrees more segregation of duties needs to be in place to have adequate internal controls. Management also agrees that given the limited size and staff, there are not enough layers to have a robust segregation of duties like large organizations. That said, more separation will be put in place, as is possible, in 2024 to detect and correct unintentional or intentional misstatements.

MOSSADAMS