

# Lower Valley Hospital Association

Consolidated Financial Statements

Years Ended December 31, 2023 and 2022



**WIPFLI**

# Lower Valley Hospital Association

Years Ended December 31, 2023 and 2022

---

## Table of Contents

Independent Auditor's Report.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets.....	3
Consolidated Statements of Operations and Changes in Net Assets .....	5
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	8

## **Independent Auditor's Report**

Board of Trustees  
Lower Valley Hospital Association  
Fruita, Colorado

### ***Opinion***

We have audited the consolidated financial statements of Lower Valley Hospital Association ("Family Health West"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family Health West as of December 31, 2023 and 2022, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Family Health West and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Family Health West's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

## ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Family Health West'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Family Health West'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.

*Wipfli LLP*

Wipfli LLP  
Eau Claire, Wisconsin  
April 23, 2024

# Lower Valley Hospital Association

## Consolidated Balance Sheets

<i>December 31,</i>	<b>2023</b>	<b>2022</b>
<i>ASSETS</i>		
Current assets:		
Cash and cash equivalents	\$ 16,539,914	\$ 18,273,834
Assets limited as to use	1,841,804	1,632,651
Short-term investments	6,212,085	-
Patient accounts receivable - Net	12,820,893	8,960,165
Other receivables	2,543,412	548,250
Inventories	1,619,110	1,952,822
Prepaid expenses and other	744,887	1,226,771
Total current assets	42,322,105	32,594,493
Assets limited as to use:		
Under bond indenture agreements - Principal and interest funds	1,841,804	1,632,651
Under bond indenture agreements - Reserve funds	2,813,875	2,813,875
Deferred compensation plan assets	1,022,363	697,811
Other	-	8
Total assets limited as to use	5,678,042	5,144,345
Less - Current portion of assets limited as to use	1,841,804	1,632,651
Assets limited as to use - Less current portion	3,836,238	3,511,694
Property and equipment – Net	24,632,865	24,076,994
Right-of-use assets - Operating leases	1,125,626	1,497,565
Other assets:		
Investment in unconsolidated affiliates	1,114,243	1,127,247
Other	68,774	102,700
Total other assets	1,183,017	1,229,947
Total assets	\$ 73,099,851	\$ 62,910,693

# Lower Valley Hospital Association

## Consolidated Balance Sheets (Continued)

<i>December 31,</i>	<b>2023</b>	<b>2022</b>
<i>LIABILITIES AND NET ASSETS</i>		
Current liabilities:		
Current portion of long-term debt	\$ 1,321,015	\$ 1,321,015
Current portion of operating lease liabilities	355,735	446,483
Accounts payable - Trade	3,275,809	2,235,555
Accrued salaries and benefits	1,606,983	1,757,672
Accrued vacation payable	1,606,601	1,593,000
Interest payable	1,026,000	1,044,437
Amounts payable to third-party reimbursement programs	4,780,726	1,786,377
Total current liabilities	13,972,869	10,184,539
Long-term liabilities:		
Long-term debt - Less current portion	38,624,178	39,887,664
Operating lease liabilities - Less current portion	357,433	633,664
Deferred compensation plan liability	1,022,363	697,811
Total long-term liabilities	40,003,974	41,219,139
Total liabilities	53,976,842	51,403,678
Net assets:		
Net assets without donor restrictions	17,602,233	11,507,015
Net assets with donor restrictions	1,520,776	-
Total net assets	19,123,009	11,507,015
Total liabilities and net assets	\$ 73,099,851	\$ 62,910,693

See accompanying notes to consolidated financial statements.

# Lower Valley Hospital Association

## Consolidated Statements of Operations and Changes in Net Assets

<i>Years Ended December 31,</i>	<b>2023</b>	<b>2022</b>
Net assets without donor restrictions:		
Revenue:		
Net patient service revenue	\$ 80,330,422	\$ 76,075,548
Other operating revenue	793,994	1,009,086
Total revenue	81,124,416	77,084,634
Expenses:		
Salaries and wages	40,565,049	37,866,001
Employee benefits	8,189,099	8,222,681
Supplies and other expenses	26,588,150	27,190,439
Depreciation	2,774,229	2,650,628
Interest and amortization	2,278,658	2,354,678
Total expenses	80,395,185	78,284,427
Income (loss) from operations	729,231	(1,199,793)
Non-operating revenue (expenses):		
Contributions and grants - Net of grants paid	4,568,267	866,566
Interest income	633,508	49,247
Loss on disposal of property and equipment	(72,167)	(186,491)
Other	236,379	-
Total non-operating revenue - Net	5,365,987	729,322
Change in net assets without donor restrictions	6,095,218	(470,471)
Change in net assets with donor restrictions - Contributions and grants	1,520,776	-
Total change in net assets	7,615,994	(470,471)
Net assets at beginning	11,507,015	11,977,486
Net assets at end	\$ 19,123,009	\$ 11,507,015

See accompanying notes to consolidated financial statements.

# Lower Valley Hospital Association

## Consolidated Statements of Cash Flows

Years Ended December 31,	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 7,615,994	\$ (470,471)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,774,229	2,650,628
Amortization	93,605	109,956
Change in equity interest in unconsolidated affiliate	-	-
Loss on disposal of property and equipment	72,167	186,491
Restricted contributions and grants	(1,520,776)	-
Changes in operating assets and liabilities:		
Patient accounts receivable	(3,860,728)	(551,052)
Inventories	333,712	(91,671)
Prepaid expenses and other	(1,508,318)	(902,146)
Accounts payable	473,259	503,126
Accrued expenses	(155,525)	(3,170)
Amounts payable to third-party reimbursement programs	2,994,349	(1,227,867)
Deferred revenue	-	(473,592)
Deferred compensation plan liability	324,552	145,044
Total adjustments	20,526	345,747
Net cash provided by (used in) operating activities	7,636,520	(124,724)
Cash flows from investing activities:		
Purchases and property and equipment - Net	(2,835,272)	(2,505,969)
Increase in assets limited as to use for deferred compensation plan	(324,552)	(145,044)
Increase in short-term investments	(6,212,085)	-
Increase in investment of unconsolidated affiliates	(25,000)	(921,498)
Distribution from unconsolidated affiliate	38,004	-
Net cash used in investing activities	(9,358,905)	(3,572,511)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	-	1,965,241
Principal payments of long-term debt	(1,323,166)	(2,342,190)
Restricted contributions and grants	1,520,776	-
Net cash provided by (used in) financing activities	197,610	(376,949)
Net decrease in cash and cash equivalents	(1,524,775)	(4,074,184)
Cash and cash equivalents and restricted cash at beginning	22,720,368	26,794,552
Cash and cash equivalents and restricted cash at end	\$ 21,195,593	\$ 22,720,368

# Lower Valley Hospital Association

## Consolidated Statements of Cash Flows (Continued)

<i>Years Ended December 31,</i>	<b>2023</b>	<b>2022</b>
Cash and cash equivalents, including restricted cash, is included in the consolidated balance sheets under the following captions:		
Cash and cash equivalents	\$ 16,539,914	\$ 18,273,834
Assets limited as to use (including current portions)	5,678,042	5,144,345
Less: Deferred compensation plan assets (investments other than cash)	(1,022,363)	(697,811)
	\$ 21,195,593	\$ 22,720,368

**Supplemental cash flow information:**

Property and equipment purchases included in accounts payable	\$ 566,995	\$ -
Cash paid for interest	2,203,490	2,262,222

See accompanying notes to consolidated financial statements.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### Note 1: Summary of Significant Accounting Policies

#### The Entity

Lower Valley Hospital Association (the "Hospital") is a "not-for-profit", non-governmental, tax-exempt organization incorporated under the laws of the State of Colorado. The Hospital provides comprehensive inpatient, outpatient, and critical healthcare services to the residents of Fruita, Colorado, and the surrounding areas.

The Hospital has several operating divisions, primarily doing business under the name Family Health West, as follows:

- Hospital – A 25-bed acute care hospital designated by the Centers for Medicare and Medicaid as a Critical Access Hospital.
- Physician Services – A division of the Hospital that operates several clinics and practices and provides support services to medical providers working in the clinics and at the Hospital.
- The Willows Assisted Living – A 26-bed facility licensed by the State of Colorado to provide secured assisted living quarters and services to residents.

The Hospital is also the sole corporate member and primary beneficiary of the Family Health West Foundation (the "Foundation").

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital and the Foundation (collectively referred to as "Family Health West"). All significant intercompany accounts and transactions have been eliminated in consolidation.

#### Consolidated Financial Statement Presentation

Family Health West follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities in the preparation of consolidated financial statements in conformity with GAAP.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Use of Estimates in Preparation of Consolidated Financial Statements**

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

#### **Cash Equivalents**

Family Health West considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding assets limited as to use or restricted.

#### **Short-Term Investments, Assets Limited as to Use, and Interest Income**

Investments, including those categorized as short-term investments and assets limited as to use, other than the investments in unconsolidated affiliates, are measured at fair value in the accompanying consolidated financial statements.

Assets limited as to use primarily include assets set aside under terms of bond indenture agreements and amounts designated to fund deferred compensation plan liabilities. Amounts required to meet current liabilities of Family Health West have been classified as current assets.

Interest income is reported as non-operating revenue (expenses) and is included in the change in net assets without donor restrictions unless the income is restricted by donor or law.

Family Health West monitors the difference between the cost and fair value of its investments. If investments experience a decline in value that Family Health West determines is other than temporary, Family Health West records a realized loss in investment income.

#### **Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. Family Health West measures the fair value of its financial instruments using a three-tier hierarchy that prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Patient Accounts Receivables and Credit Policy**

Patient accounts receivable are reported at the amount that reflects the consideration to which Family Health West expects to be entitled, in exchange for providing patient care services. Patient accounts receivable are recorded in the accompanying consolidated balance sheets net of contractual adjustments and implicit price concessions which reflects management's estimate of the transaction price. Family Health West estimates the transaction price based on negotiated contractual agreements, historical experience, and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions and is recorded through a reduction of gross revenue and a credit to patient accounts receivable. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change.

Family Health West does not have a policy to charge interest on past due accounts.

#### **Inventories**

Inventories consist primarily of medical supplies, general supplies, and pharmaceuticals used in the delivery of health care services. Inventories are stated at the lower of cost or net realizable value.

#### **Property, Equipment, and Depreciation**

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Estimated useful lives range from twelve to fifteen years for land improvements, from five to forty years for buildings and improvements, and from three to fifteen years for major movable equipment. Assets constructed as leasehold improvements, as well as, equipment under finance lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation expense in the accompanying consolidated statements of operations and changes in net assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the operating indicator, unless explicit donor stipulations specify how the donated assets must be used. 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 support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Impairment of Long-Lived Assets**

Family Health West periodically evaluates the recoverability of its long-lived assets, which consist primarily of property and equipment with estimated useful lives, whenever events or changes in circumstance indicate that the carrying value may not be recoverable. If the recoverability of these assets is unlikely because of the existence of factors indicating impairment, an impairment analysis is performed using a projected undiscounted cash flow method. Management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of these respective assets. If the carrying amounts of the assets exceed their respective fair values, the carrying value of the underlying assets would be adjusted to fair value and an impairment loss would be recognized. During 2023 and 2022, Family Health West determined that no evaluations of recoverability were necessary.

#### **Asset Retirement Obligation**

Family Health West accounts for the fair value of legal obligations associated with long-lived asset retirement in accordance with the asset retirement and environmental obligations accounting guidance. Management has considered this accounting guidance, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Management of Family Health West believes that any potential liability related to asset retirement obligations would not be significant. As a result, no liability related to these retirement activities has been recognized as of December 31, 2023 and 2022.

#### **Leases**

Family Health West leases property and equipment under finance and operating leases. Family Health West determines whether an arrangement is a lease at inception. For leases with terms greater than twelve months, Family Health West records the related right-of-use ("ROU") assets and lease liabilities at the present value of lease payments over the term. Leases may include rental escalation clauses and options to extend or terminate the lease that are factored into the determination of lease payments when appropriate. Family Health West does not separate lease and non-lease components of contracts, when applicable. In cases when Family Health West's lease arrangement or agreement did not provide an implicit rate stated in the arrangement or agreement, the current risk-free rate of Family Health West was applied based on the information available at the commencement date of the lease in determining the present value of lease payments.

Operating leases are included in right-of-use assets, current operating lease obligations, and long-term operating lease obligation in the accompanying consolidated balance sheets. Operating lease expense is recognized on a straight-line basis over the lease term and is included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

Finance leases are included in property and equipment and long-term debt in the accompanying consolidated balance sheets, when applicable. Family Health West had no finance lease obligations at December 31, 2023 or 2022.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Unamortized Bond Issuance Costs**

Costs related to issuance of long-term debt are being amortized over the term of the related debt.

#### **Investment in Unconsolidated Affiliates**

The majority of the investments in unconsolidated affiliates are accounted for using the cost method of accounting due to the limited ownership interest in the affiliates by Family Health West.

One of the investments in an unconsolidated affiliate is accounted for under the cost method of accounting; however, due to the operating agreements related to the type of membership organization and participation of Family Health West in the organization, the original cost is adjusted annually based on changes in the operating results of the unconsolidated affiliate and other transactions such as returns of initial capital investments or distributions of equity.

#### **Net Assets**

Net assets without donor restrictions are those not subject to donor-imposed stipulations and include those expendable resources which have been designated for special use by the Board of Directors. Net assets with donor restrictions are those whose use by Family Health West has been limited by donors to a specific time period or purpose.

#### **Net Patient Service Revenue**

Net patient service revenue is reported at the amount that reflects the consideration to which Family Health West expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Family Health West bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### Note 1: Summary of Significant Accounting Policies (Continued)

#### Net Patient Service Revenue (Continued)

Performance obligations are determined based on the nature of the services provided. Revenue from performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Generally, Family Health West has few patients which have performance obligations which are satisfied over time. The majority of the patient care services provided in or by the hospital, assisted living, or clinic providers have performance obligations which are satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of these services described, the recognition of the performance obligation over time yields the same result as recognition of the obligation at a point in time. Family Health West believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Family Health West uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. Family Health West used the following factors to develop portfolios: major payor classes, type of service (i.e. inpatient, outpatient, emergency, clinic, etc.), and geographic location. Using historical collection trends and other analyzes, Family Health West evaluated the accuracy of its estimate and determined that recognizing revenue by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

The nature, amount, timing, and uncertainty of revenue and cash flows are affected by several factors that Family Health West considers in its recognition of revenue. Following are some of the factors considered:

- Payors (for example, Medicare, Medicaid, managed care, other insurance, patient) have different reimbursement/payment methodologies
- Length of the patient's service/episode of care
- Geography of the service location
- Lines of business that provided the service (for example, hospital, clinic, assisted living, etc.)

Family Health West determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Family Health West's policy, and implicit price concessions provided to patients. Family Health West determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policy, and historical experience. Family Health West determines its estimate of implicit price concessions based on its historical collection experience for each patient portfolio based on payor class and service type.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Net Patient Service Revenue** (Continued)

Family Health West has agreements with third-party payors that typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

#### Hospital and Clinic Services

- Medicare: Family Health West is designated as a critical access hospital (CAH). As such, all inpatient, swing bed, and outpatient hospital services are paid based on a cost-reimbursement methodology, except for certain types of laboratory, radiology, and professional services provided to Medicare beneficiaries, which are reimbursed on prospectively determined fee schedules.
- Medicaid: The State of Colorado Medicaid program will pay a hospital-specific amount per discharge or visit for inpatient and outpatient services adjusted by patient acuity, determined based on prior hospital cost reports and state budgetary and rate setting methods. Professional services provided by physicians and other clinicians in the hospital setting continue to be reimbursed on prospectively determined fee schedules.

The state of Colorado also utilizes a provider fee program, approved by the Centers for Medicare and Medicaid Services (CMS), under which all hospitals in the state are assessed a fee based on bed size and payor mix. The state of Colorado then uses the fees to supplement state Medicaid program payments by utilizing a federal Medicaid matching funds program, enabling the state of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible. The supplemental payments are paid under various programs and are paid in addition to standard Medicaid fee-for-service claims payments and any net supplemental income is included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

- Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and fee schedules.

#### Assisted Living Services:

- Assisted living resident care services are charged and reimbursed by each resident based on a level of acuity or care which is assigned to each resident based on their current needs as determined by the nursing staff of the assisted living facility.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Net Patient Service Revenue** (Continued)

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Because of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Family Health West's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims, or penalties would have upon Family Health West.

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) to search for potentially inaccurate Medicare payments that may have been made to health care providers and were not detected through existing CMS program integrity efforts. Once the RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. Family Health West has not been notified by the RAC of any potential significant reimbursement adjustments. In addition, the contracts Family Health West has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Family Health West's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2023 and 2022.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Family Health West also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. Family Health West estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's or resident's ability to pay are recorded as bad debt expense.

Consistent with Family Health West's mission, care is provided to patients regardless of their ability to pay.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Net Patient Service Revenue** (Continued)

Therefore, Family Health West has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Family Health West expects to collect based on its collection history with those patients. Family Health West's policy provided a 30% discount on payments made in full prior to or within 30 days of service, a 20% discount on payments made in full within 60 days of the first statement, or a 10% discount on all uninsured claims with or without prompt payment in 2023 and 2022, respectively. This policy did not change in 2023 and 2022.

The promised amount of consideration from patients and third-party payors has not been adjusted for the effects of a significant financing component due to Family Health West's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, Family Health West does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

All incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that Family Health West otherwise would have recognized is one year or less in duration.

For uninsured patients and residents who do not qualify for charity care, Family Health West recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of Family Health West's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Family Health West includes price concessions related to uninsured patients in the period the services are provided.

#### **Charity Care**

Family Health West provides care to patients who meet criteria under its financial assistance for patients policy without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as net patient service revenue.

The estimated cost of providing care to patients under Family Health West's financial assistance for patients policy is calculated by multiplying the ratio of cost to gross charges times the gross uncompensated charges associated with providing charity care.

#### **Contributions and Donor-Restricted Gifts**

Contributions are considered available for unrestricted use unless specifically restricted by the donor.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Advertising Costs**

Advertising costs are expensed as incurred.

#### **Unemployment Compensation**

Family Health West has elected the reimbursement (self-insured) method to finance the cost of unemployment compensation benefits. Under this method, unemployment compensation expense is charged to operations when paid or when the amount of claims can be reasonably estimated.

#### **Income Taxes**

The Hospital and Foundation are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital and Foundation are also exempt from state income taxes on related income. The Hospital is also engaged, to a limited extent, in certain activities subject to taxation as unrelated business income (UBI). UBI is not significant.

#### **Subsequent Events**

Subsequent events have been evaluated through April 23, 2024, which is the date the consolidated financial statements were issued. See Note 18 related to a subsequent event.

### **Note 2: COVID-19**

Starting in March 2020, the nation in general, and healthcare-related entities specifically, have been faced with a global pandemic. As healthcare entities prepared for the crisis, operational changes were made to delay routine visits and elective procedures and reevaluate the entire care delivery model to care for patient needs, specifically those affected by COVID-19. These operational changes continued and adjustments were made in operations and business plans throughout the pandemic. The declared public health emergency ended in May 2023 related to the COVID-19 pandemic, and even with this ending the complete financial impact on the economy in general and healthcare-related entities specifically still remains undeterminable at this time. Management of Family Health West continues to note that both operational performance and cash flows for healthcare-related entities have been and will continue to be impacted into the future even though the declared public health emergency period and pandemic have ended.

The federal and state governments, as well as other agencies, have been assisting many healthcare organizations to prevent significant financial constraints by providing supplemental payment programs in the forms of distributions which are intended to help in offsetting lost revenues as well as the cost of staffing, supplies, and equipment from treating patients impacted by or preparing for the pandemic's healthcare needs.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### Note 2: COVID-19 (Continued)

During the year ended December 31, 2022, Family Health West recognized approximately \$483,000 as other operating revenue from these programs. Funding was received from multiple sources including funds from the U.S. Department of Health and Human Services ("HHS") Coronavirus Aid, Relief, and Economic Security Act ("CARES") Provider Relief Funds; American Recovery Plan Act ("ARP") Rural Distributions; and the State of Colorado.

These funds are subject to various financial and compliance guidelines for intended uses as published by the federal and state governments. Management is continuing to monitor compliance with the terms and conditions of the Provider Relief Fund and Rural Distributions as new guidance and clarification is released from HHS and other agencies. If Family Health West is unable to attest to or comply with current or future terms and conditions as more information becomes available, Family Health West's ability to retain some or all of the distributions received may be impacted. As of December 31, 2023, Family Health West's management has completed all required attestations under the current terms and conditions of the programs which have been released to date related to this funding.

The CARES Act also created and funded the Employee Retention Credit ("ERC") to provide a refundable tax credit for employers that were negatively impacted by the COVID-19 pandemic. This credit was also designed to provide an incentive for employers to retain their employees. Family Health West determined it met the initial eligibility criteria and applied for and received approximately \$7,000,000 in funding from the Internal Revenue Service ("IRS") in 2023. Family Health West determined that the receipt of the funds and recognition as income were contingent on having appropriate expenses and meeting other qualifying criteria outlined for the ERC by the IRS. The funds received were recognized in 2023 are included in contributions and grants in the accompanying consolidated statements of operations and changes in net assets as Family Health West noted it met the criteria that any contingencies to recording the gain were met upon receipt of the funds in 2023.

During 2023, Family Health West also was approved as a grantee in a Phase I Seed Grant for Regional Talent Initiative Program (Opportunity Now Colorado) administered through the State of Colorado Governor's Office of Economic Development and International Trade. The total potential funding under the grant when received is approximately \$1,511,000. The grant is funded by pass through funding from the ARP Act and is intended to advance the regional workforce through clinical training and other initiatives. Family Health West was approved; however, has not received funding yet from the State of Colorado due to final determinations needing to be met, and as a result the funds are included in net assets with donor restrictions in the accompanying consolidated balance sheets at December 31, 2023 due to a timing and reporting restriction. The funds will also be subject to certain audit and reporting requirements when the funds are received from the State of Colorado in the future.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

### Note 3: Available Resources and Liquidity

Family Health West does not have a formal liquidity policy but generally strives to maintain financial assets in liquid form such as cash and cash equivalents for at least approximately three to six months of operating expenses.

Financial assets available for general expenditure, such as operating expenses, scheduled long-term debt payments, and purchases of property and equipment, within one year of the balance sheets date, comprise the following at December 31:

	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 16,539,914	\$ 18,273,834
Short-term investments	6,212,085	-
Patient accounts receivable - Net	12,820,893	8,960,165
Other receivables	2,543,412	548,250
<b>Total financial assets available for general expenditure</b>	<b>\$ 38,116,304</b>	<b>\$ 27,782,249</b>

Patient accounts receivable - Net becomes an available resource to Family Health West as operating cash as it is billed and collected based on the policies and procedures described in Note 1. The opening balance of patient accounts receivable - net at January 1, 2022 was \$8,409,113.

### Note 4: Short-Term Investments and Assets Limited as to Use

Short-term investments consisted of the following at December 31:

	<b>2023</b>	<b>2022</b>
Certificates of deposit - Due within one year and interest rates ranging from 4.00% to 4.41% at December 31, 2023	\$ 6,212,085	\$ -
<b>Total</b>	<b>\$ 6,212,085</b>	<b>\$ -</b>

Assets limited as to use consisted of the following at December 31:

	<b>2023</b>	<b>2022</b>
Under bond indenture agreements - Money market funds	\$ 4,655,679	\$ 4,446,526
Deferred compensation plan - Mutual funds	1,022,363	697,811
Other funds - Cash and cash equivalents	-	8
<b>Total assets limited as to use</b>	<b>\$ 5,678,042</b>	<b>\$ 5,144,345</b>

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 4: Short-Term Investments and Assets Limited as to Use** (Continued)

Management assesses individual investment securities as to whether declines in market value are temporary or other than temporary. In assessing an issuer's financial condition, management evaluates various financial indicators (examples: the financial position and near term prospects of the issuer, conditions in the issuer's industry, liquidity of the investment, industry analysts' reports, and any recent downgrades of the issuer by a rating agency). The length of time and extent to which the fair value of the investment is less than cost and Family Health West's ability and intent to retain the investment to allow for any anticipated recovery of the investment's fair value are key components as to whether management deems declines in fair value as temporary or other than temporary. If declines are determined to be other than temporary, Family Health West records a realized loss in investment income. Management reviewed the investment portfolio at December 31, 2023 and 2022, and determined that all securities with a decline in value were deemed to be temporary declines in value and not significant. As such, there were no impairment losses recognized at December 31, 2023 and 2022.

Investment income is entirely made up of interest income in 2023 and 2022.

### **Note 5: Fair Value Measurements**

The following is a description of the valuation methodology used for assets measured at fair value.

Money market funds are valued using a net asset value (NAV) of \$1. Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by Family Health West are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. The funds are required to publish their daily NAV and to transact at that price. The mutual funds held by Family Health West are deemed to be actively traded.

The methods described for fair value calculations may produce a calculation that may be different from the net realizable value or not reflective of future values expected to be received. Family Health West believes that its valuation methods are appropriate and consistent with other market participants; however, the use of other methodologies and assumptions may produce results that differ in the estimates of fair value at the financial reporting date.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

### Note 5: Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, Family Health West's assets measured on a recurring basis (principally assets limited as to use) at fair value as of December 31, 2023 and 2022:

	<b>2023</b>			<b>Total Assets at Fair Value</b>
	<b>Fair Value Measurements Using</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets:</b>				
Money market funds (included in assets limited as to use as part of amounts under bond indenture agreements)	\$ -	\$ 4,655,679	\$ -	\$ 4,655,679
Mututal funds - Equity and fixed income securities (included in assets limited as to use as deferred compensation plan assets)	1,022,363	-	-	1,022,363
<b>Total assets</b>	<b>\$ 1,022,363</b>	<b>\$ 4,655,679</b>	<b>\$ -</b>	<b>\$ 5,678,042</b>

	<b>2022</b>			<b>Total Assets at Fair Value</b>
	<b>Fair Value Measurements Using</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets:</b>				
Money market funds (included in assets limited as to use as part of amounts under bond indenture agreements)	-	\$ 4,446,526	\$ -	\$ 4,446,526
Mututal funds - Equity and fixed income securities (included in assets limited as to use as deferred compensation plan assets)	697,811	-	-	697,811
<b>Total assets</b>	<b>697,811</b>	<b>\$ 4,446,526</b>	<b>\$ -</b>	<b>\$ 5,144,337</b>

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

### Note 6: Property, Equipment, and Depreciation

Property and equipment consisted of the following at December 31:

	<b>2023</b>	<b>2022</b>
Land	\$ 794,803	\$ 694,803
Land improvements	3,524,577	3,524,577
Buildings and improvements	45,042,014	43,213,071
Leasehold improvements	1,118,879	1,118,879
Equipment	18,055,202	17,739,525
<b>Total property and equipment</b>	<b>68,535,475</b>	<b>66,290,855</b>
<b>Less - Accumulated depreciation</b>	<b>44,467,532</b>	<b>42,218,861</b>
<b>Net depreciated value</b>	<b>24,067,943</b>	<b>24,071,994</b>
<b>Construction in progress</b>	<b>564,922</b>	<b>5,000</b>
<b>Property and equipment - Net</b>	<b>\$ 24,632,865</b>	<b>\$ 24,076,994</b>

Construction in progress at December 31, 2023, primarily consists of the initial planning and other information technology build costs associated with an Electronic Medical Record ("EMR") implementation project, as well as minor facility equipment installation and renovation costs. Family Health West anticipates the EMR will be placed into service in 2024, and the remaining estimated cost to complete this project is approximately \$500,000 at December 31, 2023.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 7: Investment in Unconsolidated Affiliates**

#### **Investment in Healthcare Management, LLC**

Family Health West is a member of Healthcare Management, LLC, a joint venture consisting of 22 hospitals and healthcare organizations. Family Health West has participated in and been an equity member of this organization since 1999. Healthcare Management, LLC provides billing and collections for patient self-pay balances for rural and community hospitals and physician clinics. The investment at December 31, 2023 and 2022, was \$200,743 and \$213,747 respectively. During 2023, Family Health West also exercised a clause in a termination arrangement for an independent physician arrangement in which the organization previously participated in through 2022. Under the termination arrangement, Family Health West was able to purchase an additional membership interest in Healthcare Management, LLC for \$25,000 in 2023. In 2023, Family Health West also received distributions in the amount \$38,004 from Healthcare Management, LLC. There were no distributions received from Healthcare Management, LLC in 2022.

Family Health West accounts for its investment in Healthcare Management, LLC on the cost method of accounting, except for the equity basis adjustments and other items which are previously described in the accounting for investments in unconsolidated affiliates in Note 1.

#### **Investment in Cardiac Catheterization Laboratories Program**

During 2022, Family Health West entered into a Cardiac Catheterization Laboratories Program Agreement with an unrelated non-profit hospital located in its region. Under the terms of the agreement, Family Health West made an initial contribution in the amount of \$913,500 in 2022 to the unrelated hospital. The initial contribution was intended to assist with initial funding for operations of a regional cardiac catheterization laboratory for use by patients within the region. This cardiac catheterization program is a joint venture which is operated primarily by the unrelated hospital and the goal of this joint program is to strengthen cardiac catheterization laboratory services for patients within the region.

Family Health West accounts for this investment on the cost method of accounting as its initial capital contribution provided for an approximately 3% ownership interest in the joint cardiac catheterization laboratory program. Family Health West's capital contribution also allows for it to participate as a member of the oversight committee for the joint cardiac catheterization laboratories program. No further capital contributions were made in 2023, and any future operating capital contributions from owner hospitals will be determined on an as needed basis by the oversight committee.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

### Note 8: Long-Term Debt

Long-term debt consisted of the following at December 31:

	<b>2023</b>	<b>2022</b>
City of Fruita, Colorado, Healthcare Revenue Bonds, Series 2017A and 2017B Bonds issued on December 19, 2017, in the amount of \$41,400,000 to refinance the Series 2008 bonds and provide additional funds for construction, with semi-annual payments due January 1 and July 1, at interest rates of 5.0% for 2018-2028 per annum, 5.375% for 2029-2033 per annum and 5.5% for 2034-2048 per annum. Bonds mature in 2048 and are collateralized by certain real property and equipment of Family Health West.	\$ 38,150,000	\$ 38,875,000
Notes payable to BMO issued in increments from 2014 through 2021 in various amounts for equipment purchases. Interest is at prime (30 day rate) plus various adjusted interest rates done monthly. The notes are due at various times through 2022 and 2025 and are collateralized by equipment.	302,257	541,276
Note payable to Alpine Bank issued in 2022. Interest is fixed at 4.5% with monthly payments of \$19,823, including interest, with final payment due August 1, 2036. Collateralized by a deed of trust on real property.	202,026	212,474
Note payable to Grand Valley Bank issued in 2022. Interest is fixed at 3.45% with monthly payments of \$136,805, including interest, with final payment due on October 1, 2037. Collateralized by a deed of trust on real property.	\$ 1,501,027	\$ 1,586,380
Notes payable to Bank of San Juans issued April 14, 2021, in the amount of \$1,800,000 for the facility renovation and construction project. Interest is at 3.150% with monthly payments of \$25,550, including interest, with a maturity of April 14, 2028. Collateralized by a deed of trust on real property.	1,217,205	1,480,551
Totals	41,372,515	42,695,681
Less - Unamortized bond issuance costs	1,427,322	1,487,002
Less - Current portion	1,321,015	1,321,015
Long-term portion	\$ 38,624,178	\$ 39,887,664

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

### Note 8: Long-Term Debt (Continued)

The Series 2017A and 2017B Bonds contain various covenants including those related to limitations on incurring additional indebtedness, calculations of specified financial ratios, timely submission of specified financial reports, and other information.

Aggregate maturities of principal of long-term debt for the five years following December 31, 2023, are as follows:

2024	\$ 1,321,015
2025	1,264,486
2026	1,218,510
2027	1,281,540
2028	1,138,705
Thereafter	35,148,259
<hr/>	
Total	\$ 41,372,515

### Note 9: Leases

Family Health West has operating leases for radiology equipment and clinic facilities. The leases have remaining lease terms at December 31, 2023, ranging from one to eight years, some of which may be extended.

Operating expenses for the leasing activity of Family Health West as a lessee for the years ended December 31 are as follows:

Lease Type	Classification	2023 Amounts	2022 Amounts
<hr/>			
Operating lease costs (including fixed and variable lease costs)	Supplies and other expenses	\$ 655,704	\$ 783,900

Cash paid for amounts included in the measurement of lease liabilities for the years ended December 31 were as follows:

	2023	2022
<hr/>		
Operating cash flows from operating leases	\$ 655,704	\$ 783,900

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### Note 9: Leases (Continued)

There was one right-of-use asset obtained through the issuance of new lease obligations during the year ended December 31, 2023, which totaled \$94,969 at the inception of the lease. There was also one right-of-use asset obtained through the issuance of new lease obligations during the year ended December 31, 2022, which totaled \$305,277 at the inception of leases.

In addition to the lease obligations for property and equipment described above, Family Health West had previously entered into a 99-year lease agreement for the use of land with the City of Fruita, Colorado. Under this land lease agreement, Family Health West prepaid for the entire amount of the lease which upon inception was \$490,000. The remaining prepaid value at December 31, 2023 and 2022, which is included in right-of-use assets in the accompanying consolidated balance sheets was \$412,458 and \$417,407, respectively. During 2023 and 2022, Family Health West also amortized a portion of the prepaid lease costs which were considered used and expended during the year from its right-of-use assets in the amount of \$4,949 and \$4,939, respectively, which are included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

Family Health West also has other lease obligations for property and equipment which were obtained prior to 2022 and short-term leases which do not qualify for operating or finance lease accounting treatment.

The average lease terms and discount rates at December 31 are as follows:

	2023	2022
Weighted average remaining lease term (in years):		
Operating leases	4.20	3.91
Weighted average discount rate:		
Operating leases	1.86 %	2.00 %

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

### Note 9: Leases (Continued)

Future minimum lease payments relating to noncancellable operating leases at December 31, 2023, are as follows:

2024	\$	364,467
2025		171,129
2026		35,224
2027		35,224
2028		35,224
Thereafter		93,932
Total minimum lease payments		735,200
Less - Amount representing interest		(22,032)
Present value of minimum lease payments		\$ 713,168

### Note 10: Net Patient Service Revenue

The composition of net patient service revenue based on the region Family Health West operates in, as outlined in Note 1, and its lines of business for the years ended December 31 are as follows:

	2023	2022
Service lines:		
Hospital services	\$ 64,315,846	\$ 62,576,210
Physician services	14,920,811	12,212,196
Assisted living services	1,093,765	1,287,142
Totals	\$ 80,330,422	\$ 76,075,548

Net patient service revenue (net of contractual allowances, discounts, and implicit price concessions) consisted of the following for the year ended December 31:

	2023	2022
Medicare and Medicare Advantage Plans	\$ 38,815,055	\$ 36,915,926
Medicaid and Medicaid HMO Plans	12,517,190	11,504,996
Other third-party payors	27,458,797	26,056,806
Patients	1,539,380	1,597,820
Net patient service revenue	\$ 80,330,422	\$ 76,075,548

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 11: Charity Care**

Family Health West provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of Family Health West, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources or who are underinsured. Family Health West provides discounts from established charges to self-pay patients seeking hospital or clinic services without regard to ability to pay and considers these discounts a part of its community benefit.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care without charge or at a reduced rate, determined based on qualifying criteria as defined in Family Health West's financial assistance for patients policy and from applications completed by patients and their families.

The estimated cost of providing care to patients under Family Health West's charity care policy aggregated approximately \$246,000 and \$51,000 in 2023 and 2022, respectively.

Other benefits for the community also include unpaid costs of treating the elderly, health screenings, community education through seminars and classes, and other health-related services.

### **Note 12: Self-Funded Health Plan**

Family Health West is self-funded for health benefits for eligible employees and their dependents. Family Health West, in connection with this plan, recognizes health benefit expenses on an accrual basis. An accrued liability is recorded at year-end which estimates the incurred but not reported claims that will be paid by Family Health West. Family Health West also has stop loss insurance to cover catastrophic claims in excess of specific-limits.

The employee health plan expense for the years ended December 31, 2023 and 2022, was \$2,373,343 and \$3,610,613, respectively. A liability of \$549,904 and \$766,383 for claims outstanding at December 31, 2023 and 2022, respectively, was recorded within accrued salaries and benefits expenses in the accompanying consolidated balance sheets. Management believes this liability is sufficient to cover estimated claims, including claims incurred but not yet reported, which existed at December 31, 2023 and 2022.

### **Note 13: Defined Contribution Plan**

Family Health West sponsors a 403(b) defined contribution plan which covers substantially all employees. Family Health West contributes up to 4% of eligible covered earnings for each eligible employee. Family Health West incurred expenses for the plan of \$1,148,451 and \$1,005,192 in 2023 and 2022, respectively, including contributions to employees' retirement accounts.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### Note 14: Deferred Compensation Plan

Family Health West has also established a deferred compensation plan under which certain management employees and physicians can elect to participate in a 457(b) retirement plan. Amounts deferred under the plan are included in assets limited as to use and other long-term liabilities in the accompanying consolidated balance sheets.

### Note 15: Malpractice Insurance

Family Health West's professional liability insurance for claim losses of less than \$1,000,000 per claim and \$3,000,000 per year covers professional liability claims reported during a policy year (claims-made coverage). The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the annual period extending to July 1, 2024.

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with Family Health West. Although there exists the possibility of claims arising from services provided to patients through December 31, 2023, which have not yet been asserted, Family Health West has not been given notice of any such possible claims, and accordingly no provision has been made.

### Note 16: Concentration of Credit Risk

Financial instruments that potentially subject Family Health West to possible credit risk consist principally of patient accounts receivable, cash deposits in excess of insured limits, and investments of surplus operating funds.

Patient accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for health care provided to the patients. The majority of Family Health West's patients are from Fruita, Colorado, and the surrounding area.

The mix of receivables from patients and third-party payors was as follows at December 31:

	2023	2022
Medicare and Medicare Advantage Plans	42 %	38 %
Medicaid and Medicaid HMO Plans	15 %	15 %
Other third-party payors	31 %	33 %
Patients	12 %	14 %
<b>Total</b>	<b>100 %</b>	<b>100 %</b>

Family Health West maintains depository relationships with various financial institutions that are Federal Deposit Insurance Corporation ("FDIC") insured institutions. Depository accounts are insured by the FDIC up to \$250,000. Operating cash needs often require that amounts on deposit exceed FDIC limits. At December 31, 2023, the amount of Family Health West's bank account balances in excess of FDIC limits was approximately \$22,152,000.

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

### Note 17: Functional Expenses

Family Health West provides general healthcare services to residents within its geographic location as described in Note 1. The accompanying consolidated statements of operations and changes in net assets present certain expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis. Employee benefits are allocated based on factors of either salary expense or actual employee expense. Overhead costs that include things such as professional services, office expenses, information technology, insurance, and other similar expenses are allocated on a variety of factors including revenues and departmental expense. Costs related to building and equipment usage include depreciation and interest and are allocated on a square footage or direct assignment basis. Expenses related to providing these services for the years ended December 31, 2023 and 2022, are as follows:

	<b>2023</b>			
	<b>Healthcare Services</b>	<b>General Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 33,700,460	\$ 6,797,256	\$ 67,333	\$ 40,565,049
Employee benefits	6,559,141	1,617,782	12,176	8,189,099
Supplies and other expenses	21,769,366	4,717,633	101,151	26,588,150
Depreciation	1,989,040	785,189	-	2,774,229
Interest and amortization	1,633,730	644,928	-	2,278,658
<b>Totals</b>	<b>\$ 65,651,737</b>	<b>\$ 14,562,788</b>	<b>\$ 180,660</b>	<b>\$ 80,395,185</b>

	<b>2022</b>			
	<b>Healthcare Services</b>	<b>General Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 32,263,391	\$ 5,511,719	\$ 90,891	\$ 37,866,001
Employee benefits	6,368,384	1,846,249	8,048	8,222,681
Supplies and other expenses	22,113,465	4,929,494	147,480	27,190,439
Depreciation	1,809,412	841,216	-	2,650,628
Interest and amortization	1,607,386	747,292	-	2,354,678
<b>Totals</b>	<b>\$ 64,162,038</b>	<b>\$ 13,875,970</b>	<b>\$ 246,419</b>	<b>\$ 78,284,427</b>

# Lower Valley Hospital Association

## Notes to Consolidated Financial Statements

---

### **Note 18: Subsequent Event**

#### **Change Healthcare Cyber Attack Impacts**

Subsequent to the year ended December 31, 2023, Change Healthcare, a national data exchange corporation, came under a cyber attack where systems were held ransom for a period of time. Change Healthcare provides many services, including claims clearinghouse services and other healthcare data and information exchange services which allow hospitals, clinics, senior living, and other healthcare providers to process claims and receive payments for claims. Starting near the end of February and through the date of the accompanying consolidated financial statements, many organizations, including Family Health West, have been unable to submit a significant portion of their claims to government payors as well as other third-party payors under normal processes causing delays in reimbursement of claims as well as other information exchanges. The current known impacts are expected to involve a delay in cash receipts; however, the long-term impacts are unknown and could involve additional costs associated with reprocessing claims, inability to track and follow-up on denials, lost opportunity earnings or interest costs as organizations use cash reserves or other short-term financial vehicles, among other losses. Management is currently evaluating solutions and alternative collection strategies to the Change Healthcare issues.

### **Note 19: Reclassifications**

Certain reclassifications have been made to the 2022 consolidated financial statements to conform to the classifications used in 2023.