

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center  
December 31, 2017 and 2016**

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## Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors  
Salida Hospital District  
d/b/a Heart of the Rockies Regional Medical Center  
Salida, Colorado

### Report on the Financial Statements

We have audited the accompanying financial statements of Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center (the Medical Center), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
Salida Hospital District  
d/b/a Heart of the Rockies Regional Medical Center

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center as of December 31, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining statements of net position and the related combining statements of revenues, expenses and changes in net position and the budget and actual revenues and expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

**BKD, LLP**

Colorado Springs, Colorado  
March 27, 2018

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016

### ***Introduction***

Management's discussion and analysis of the financial performance of Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center (the Medical Center) provides an overview of the Medical Center's financial activities for the years ended December 31, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Medical Center. Unless otherwise noted, the information and financial data included in the management's discussion and analysis relate to Heart of the Rockies Regional Medical Center, including its blended component unit (Salida Hospital Foundation d/b/a Heart of the Rockies Regional Medical Center Foundation) (the Foundation) and is collectively referred to as the "Organization."

### ***Financial Highlights***

#### **Combined Organization**

- Cash and investments increased by \$8,307,319 in 2017 and increased by \$4,206,463 in 2016.
- Net position increased in 2017 by \$7,471,645 and increased in 2016 by \$6,477,072.

#### **Heart of the Rockies Regional Medical Center**

- Cash and investments increased in 2017 by \$8,263,606, or 23%, and increased in 2016 by \$4,324,179, or 14%.
- Net position increased in 2017 by \$7,437,479, or 14%, and increased in 2016 by \$6,616,069, or 15%.
- Operating income increased in 2017 by \$448,192, or 7%, and increased in 2016 by \$2,429,048, or 64%.
- Total operating revenues increased in 2017 by \$5,876,438, or 10%, and increased in 2016 by \$9,029,132, or 18%.
- Total operating expenses increased in 2017 by \$5,428,246, or 10%, and increased in 2016 by \$6,600,084, or 14%.

#### **Salida Hospital Foundation**

- Cash and investments increased by \$43,713, or 5%, in 2017 and decreased by \$117,716, or 12%, in 2016.
- Net position increased by \$34,166, or 4%, in 2017 and decreased by \$138,997, or 13%, in 2016.

# **Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center**

## **Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016**

### ***Using This Annual Report***

The Organization's financial statements consist of three statements – the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. These statements provide information about the activities of the Organization, including resources held by the Foundation, but restricted for specific purposes by contributors, grantors or enabling legislation. The Organization is accounted for as a business-type activity and presents its financial statements using the accrual basis of accounting.

### ***The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position***

One of the most important questions asked about any Organization's finances is "Is the Organization 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 report information about the Organization'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. 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 Organization's net position and changes in them. The Organization's total net position – the difference between assets, liabilities and deferred inflows of resources – are one measure of the Organization's financial health or financial position. Over time, increases or decreases in the Organization's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Medical Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Organization.

### ***The Statement of Cash Flows***

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting periods.

### ***The Organization's Net Position***

The Organization's combined net position, the difference between its assets, liabilities and deferred inflows of resources reported in the statement of net position, increased by \$7,471,645, or 14%, over 2016, as shown in Table 1.

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016

**Table 1: Assets, Liabilities, Deferred Inflows of Resources and Net Position**

Noteworthy changes in the Organization's assets, liabilities and deferred inflows of resources for 2017 are the increases in cash and cash equivalents, net patient accounts receivable, current investments, including investments internally designated by the Board of Directors, current liabilities and net position, and the decreases in noncurrent cash and investments and long-term debt. Changes of note in 2016 are the decreases in cash and cash equivalents, more than offset by the increase in current investments, including investments internally designated by the Board of Directors, and the decrease in net patient accounts receivable, noncurrent cash and investments and long-term liabilities.

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 7,611,420	\$ 5,419,086	\$ 8,723,976
Patient accounts receivable, net	10,282,499	8,939,811	9,914,378
Investments internally designated by Board of Directors, current	25,515,496	16,743,264	6,967,007
Other current investments	2,627,440	2,627,119	2,222,834
Other current assets	3,316,369	2,949,416	2,370,539
Capital assets, net	33,659,429	32,089,978	32,874,087
Noncurrent cash and investments	8,800,381	11,457,949	14,127,138
Investment in joint venture	99,153	150,378	187,508
Other assets	502,624	536,132	569,641
Total assets	<u>\$ 92,414,811</u>	<u>\$ 80,913,133</u>	<u>\$ 77,957,108</u>
<b>Liabilities and Deferred Inflows of Resources</b>			
Current liabilities (including current maturities on long-term debt)	\$ 10,146,469	\$ 5,212,578	\$ 5,789,767
Long-term debt	21,575,000	22,475,000	25,415,000
Deferred inflows of resources - lease revenue	57,864	61,722	65,580
Total liabilities and deferred inflows of resources	<u>31,779,333</u>	<u>27,749,300</u>	<u>31,270,347</u>
<b>Net Position</b>			
Net investment in capital assets	11,184,429	8,734,978	9,428,855
Restricted			
Expendable	308,124	324,168	439,262
Nonexpendable	40,000	40,000	40,000
Unrestricted	49,102,925	44,064,687	36,778,644
Total net position	<u>60,635,478</u>	<u>53,163,833</u>	<u>46,686,761</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 92,414,811</u>	<u>\$ 80,913,133</u>	<u>\$ 77,957,108</u>

# **Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center**

## **Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016**

In 2017, the Medical Center saw continued success. A balanced strategic and operational focus, emphasizing the Five Pillars of the Hardwiring Excellence model (Service, People, Quality, Finance and Growth), continues to be fundamental. In 2017, the Medical Center was able to add several new providers to existing service lines, including inpatient hospitalist services as well as the pain and rural health clinics, and opened a general surgery clinic with the employment of two physicians. Its outpatient dialysis clinic received Medicare certification in January 2017 and construction began mid-year on a campus expansion to provide additional employee parking, a laboratory expansion and a three story outpatient pavilion to house its outpatient rehabilitation and wellness services as well as all specialty physician clinics. Inpatient admissions and patient days increased by 1% and 3%, respectively, contrary to national trends while inpatient surgeries decreased 14%. Most outpatient services experienced growth over 2016, including: (1) outpatient surgery, (2) all physician clinics, with the exception of psychiatry due to the loss of a provider and orthopedic total joint due to a provider leave of absence, (3) chemotherapy and infusion services, (4) imaging procedures, primarily CT, MRI and mammography, (5) laboratory/pathology services and (6) rehab services. The Medical Center continued to benefit from improved reimbursement under the Medicaid expansion program, although was negatively impacted by the change in the associated outpatient reimbursement methodology. These changes, in conjunction with ongoing effective management of operating costs, caused the Medical Center's increase in net position as well as its cash and cash equivalents to grow from that of 2016.

The increase in net patient accounts receivable of \$1,342,688, or 15%, in 2017 represents an increase in net days outstanding from 50.0 to 54.8 and an overall 12% growth in services and associated gross revenue. State Medicaid reimbursement and claims administration changes have significantly impacted accounts receivable operations throughout the year with payment for Medicare/Medicaid beneficiary claims yet to be restored.

In 2017 and 2016, capital assets net of depreciation were impacted by the annual acquisition of new and replacement capital equipment, constructions in progress, the acquisition of vacant land, disposal of retired equipment and an increase in accumulated depreciation.

The increase in current investments, including investments internally designated by the Board of Directors, in 2017 is attributable to a transfer of \$3 million from the Medical Center's primary operating account to its money market account and a change in the Medical Center's laddered portfolio related to liquidity needs for the expansion project. In 2016, the transfer of \$8 million from the Medical Center's primary operating account to its business rate premium account, for future investment, and \$2 million to its capital reserve account, in anticipation of capital acquisition needs, resulted in a decrease in cash and cash equivalents and an increase in investments internally restricted by Board of Directors, current.

The 2017 increase in current liabilities represents construction and architect fees payable, construction retainage and an increase in Medicare and Medicaid cost report settlements.

Long-term debt decreased in both 2017 and 2016 due to the promissory note issued in 2016 to refund the Series 2006 Net Revenue Bonds and to the principal and interest payments on both issues. The decrease in noncurrent cash and investments in 2017 is attributable to a change in the Medical Center's portfolio related to liquidity needs and in 2016 resulted from utilizing the debt service reserve fund required by the Series 2006 bonds trust indenture to reduce the outstanding debt at the time of refunding.

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016

### ***Operating Results and Changes in the Organization's Net Position***

In 2017, the Organization's increase in net position was \$7,471,645, as shown in Table 2. This increase is made up of the following components:

**Table 2: Operating Results and Changes in Net Position**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Operating Revenues</b>			
Net patient service revenue, net	\$ 64,971,670	\$ 59,498,457	\$ 50,628,677
Other operating revenue	1,123,279	720,054	560,702
Total operating revenues	<u>66,094,949</u>	<u>60,218,511</u>	<u>51,189,379</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	32,151,781	29,595,299	25,595,741
Purchased services and professional fees	5,054,049	4,499,734	3,818,798
Depreciation	3,662,398	3,625,230	3,422,067
Other operating expenses	18,589,196	16,308,179	14,595,187
Total operating expenses	<u>59,457,424</u>	<u>54,028,442</u>	<u>47,431,793</u>
<b>Operating Income</b>	<u>6,637,525</u>	<u>6,190,069</u>	<u>3,757,586</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	833,305	762,524	715,271
Interest income	328,894	208,711	158,780
Other nonoperating revenues and expenses, net	(328,079)	(879,884)	(777,922)
Net nonoperating revenues (expenses)	<u>834,120</u>	<u>91,351</u>	<u>96,129</u>
<b>Gifts and Grants to Purchase Capital Assets</b>	<u>-</u>	<u>195,652</u>	<u>-</u>
<b>Increase in Net Position</b>	<u><u>\$ 7,471,645</u></u>	<u><u>\$ 6,477,072</u></u>	<u><u>\$ 3,853,715</u></u>

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016

### ***Operating Income***

The first component of the overall change in the Organization's net position for 2017 and 2016 is its operating income or loss – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Medical Center has reported operating income.

The Medical Center's vision is to be the healthcare provider of choice for its region as a world class rural healthcare organization, providing personalized and exceptional healthcare while maintaining a strong financial position in order to withstand the industry environment of regulatory uncertainty, declining reimbursement and increasing costs. The 2008 completion of, and relocation to, the replacement facility begun in 2006 established a strategically strong position for the Medical Center's future. An expansion of surgical, clinic and support areas was completed in 2012 to provide for the additional facilities required to support the growth realized over the past few years. Further investment in the Medical Center's off campus locations occurred in late 2011 with the acquisition of a Rural Health Clinic in the northern part of its district and the 2013 purchase of a medical office building long occupied as a tenant for the provision of outpatient rehabilitation, satellite x-ray and multiple physician clinic services. Additional physician clinic specialties were added during 2014 and continued to grow during 2015, and an expansion of surgical services began in late 2014 with build out and equipping of a third operating room which opened in February 2015. In 2016, the Medical Center established and received accreditation for a cardiac rehab program in conjunction with expanded cardiology services and local physician presence. 2016 also saw continued growth in physician clinic specialties with the addition of family practice providers and specialists. In January 2017, the Medical Center received Centers for Medicaid and Medicare Services certification of the outpatient dialysis clinic it opened in late 2016, assuring one of the most significant and long awaited community service needs to patients with end stage renal disease. Additionally, in late 2017 a general surgery clinic was added to the specialty services provided at the Medical Center. The Medical Center's operating income for 2017 increased by \$448,192, or 7%, and for 2016 increased by \$2,429,048, or 64%, respectively. The primary components of these changes are:

- In 2017 and 2016, an increase in net patient service revenue of \$5,473,213, or 9%, and \$8,869,780, or 18%, respectively.
- Gross patient revenues increased by \$19,576,072, or 18%, in 2017 and by \$15,204,290, or 16%, in 2016.
  - Services had an aggregate price increase of 5% in 2017 and in 2016.
  - Contrary to national trends, inpatient admissions increased from 2016 to 2017, and average length of stay increased to 3.23 in 2017 from 3.19 in 2016, resulting in a 3% increase in patient days.

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016

- Total outpatient visits increased in 2017 by 5.3% and in 2016 by 10%.
  - Emergency department visits decreased by 2% in 2017 and 2016. Based on the Medical Center's experience with its Buena Vista Health Center patients, the decreases are likely attributable to those patients who qualified for Medicaid under the 2014 expansion in Colorado having now obtained primary care medical homes within the district.
  - Infusion department visits increased by 17% in 2017 and by a 13% increase in 2016.
  - Rehabilitation services increased by 3% after zero growth in 2016.
  - General imaging services including x-rays, mammography and nuclear medicine increased by 2% in 2017 and by 6% in 2016.
  - The Dialysis Clinic was certified by the Centers for Medicare and Medicaid Services on January 3, 2017 and provided 1,851 treatments as compared to the 79 treatments performed in the last two months of 2016.
- Lab/pathology saw continued growth with a 7% increase in 2017 equal to the increase in 2016.
- Physician clinic visits increased by 33% in 2017 due to growth in seven of nine specialties and in family practice, as well as to the establishment of a general surgery clinic in December 2017. The 24% increase in 2016 was primarily due to the establishment of a pain management clinic as well as to growth in family practice and internal medicine.
- Outpatient surgeries increased by 8% in 2017 and by 11% in 2016. Volume increases are primarily related to pain management and general surgeries.
- The Medical Center recorded an increase in deductions as a percentage of gross revenue of 4.7% in 2017 and a decrease in deductions as a percentage of gross revenue of 1.4% in 2016. Deductions from gross revenues result from reductions to the listed price of services imposed by Medicare and Medicaid reimbursement rules, as well as reductions negotiated with other third-party payers.
  - The 2% Medicare sequestration increased 2017 and 2016 deductions by \$322,670 and \$296,515, respectively.
  - In 2017, inpatient and outpatient volume increases, in excess of cost increases, increased Medicare inpatient swing bed deductions by decreasing per diem payments by 9% and outpatient deductions by decreasing charge based payments 3%.
  - An October 31, 2017 change in the state's outpatient reimbursement methodology increased Medicaid deductions by 5% of gross Medicaid outpatient revenue.
  - 2017 deductions increased by 4% of gross revenue due to the addition of outpatient dialysis clinic services which are primarily reimbursed by Medicare at a predetermined rate approximating 14% of billed charges.

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016

- Both 2017 and 2016 deductions have been reduced by Medicaid supplemental payments in the amount of \$4,896,205 and \$3,121,522, respectively, under the Medicare Provider Fee Legislation adopted by the State of Colorado.
- Charity and other deductions increased \$764,990 in 2017 (from 0.2% to 0.7% of gross revenue) compared to the increase of \$791,487 (from (0.6)% to 0.2% of gross revenue) in 2016. Supplemental Colorado Indigent Care Program payments under the Medicare Provider Fee legislation in 2017 in the amount of \$445,198 exceeded write offs by \$113,656, and in 2016 in the amount of \$771,680 exceeded write offs by \$491,338.
- Salaries, wages and benefits for the Medical Center's employees increased by \$2,556,482, or 9%, in 2017 and \$3,999,933, or 16%, in 2016.
  - Employee salaries and benefits increased in 2017 in part due to an increase of 11.0 full-time equivalents (FTEs) in nursing and physician clinics, 9.8 FTEs in support services and 2.9 FTEs in ancillary/wellness services. The 2016 increase was in part due to an increase of 12.7 FTEs in nursing and physician clinics, 10.7 FTEs in support services and 6.3 FTEs in ancillary/wellness services.
  - The Medical Center's self-insured employee health plan realized a \$231,936 decrease in claims expense following the \$1,009,811 increase in 2016. This is representative of offsetting factors of the claims volatility often experienced in small self-insured plans as well as the increase in covered members. Employee contribution rates were not changed in either year in spite of the volatility.
  - Increases in both 2017 and 2016 were also attributable to average salary increases of 3% in addition to select adjustments to employee compensation based on current Colorado Hospital Association market data. These increases contributed to the success of the Medical Center's retention and recruitment efforts. The Medical Center maintained a turnover rate of 14% in 2017 and 18% in 2016, well below the state average of 24%.
- Depreciation expense increased by \$37,168 to \$3,662,398, or 6%, of total operating expenses in 2017 and increased by \$203,163 to \$3,625,230, or 7%, of total operating expenses in 2016.
  - Depreciation expense is driven by the cost of capital assets purchased and their estimated useful lives. The bulk of depreciation expense relates to the buildings owned by the hospital.
  - Major moveable equipment accounts for about 44% of total depreciation expense. In 2017 the largest additions to major moveable equipment were a Nuclear Medicine Camera, 3D Echocardiography Ultrasound and an electronic documentation system upgrade for meaningful use attestation. Purchases in 2016 primarily included a CT scanner, two anesthesia monitors and a rehab services electronic documentation system. Both 2017 and 2016 have also included new and updated surgical and diagnostic equipment as well as information technology upgrades.

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016

- Purchased services and professional fees increased by \$554,315, or 12%, in 2017 and increased by \$684,655, or 18%, in 2016. Purchased services and professional fees are impacted by a number of operational decisions.
  - In 2017, staffing changes and recruitment challenges resulted in the continued use of agency and contract staffing in acute and ICU inpatient departments, surgery and lab. Recruitment initiatives in physical therapy and medical records management were successful.
  - In 2017, a decrease in the change in professional fees resulted from successful clinic physician recruitment offset by the addition of several hospitalists and the addition of nephrology coverage to support the dialysis clinic.
- Supplies expense increased by \$917,487, or 9%, in 2017 and increased by \$1,413,486, or 16%, in 2016.
  - Departmental supplies, driven by offsetting volume and service line changes, increased by 1.5% in 2017 and by 13% in 2016.
  - Pharmaceuticals expense increased 23% in 2017 and 22% in 2016, as compared to a 31% and 12% volume increase respectively, with changes in regulations increasing the slate of drugs qualifying for discounted 340B pricing despite market increases in most drugs.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of property taxes levied by the Medical Center, investment income and interest expense.

The Medical Center was formed and is operated primarily to serve residents of the Salida Hospital District in Chaffee, Fremont and Saguache counties, where it levies property taxes in the amount of approximately 1% of gross financial support. Property taxes increased 9% and 7% in 2017 and 2016, respectively, according to Statutory Property Tax Revenue Limitations.

Investment income increased 76% in 2017 with an increase in the investment portfolio and an overall improvement in reinvested fund returns. The Medical Center incurred interest expense in 2017 and 2016 on the long-term debt outstanding that was used to finance the current hospital facility.

The Medical Center also recorded a \$27,593 unrealized loss on investments in 2017 compared to a \$6,957 unrealized loss on investments in 2016. As a result of a continued decrease in hospice census and despite operational changes focused on efficiency, it realized losses on its joint ventured home health and hospice company of \$51,224 and \$37,130 in 2017 and 2016, respectively.

# **Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center**

## **Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016**

### ***Capital and Operating Gifts***

The Medical Center receives capital and operating gifts for specific programs from donors or private foundations and other grant sources. Grants in 2017 and 2016 totaling \$228,658 and \$190,307, respectively, were received primarily from the Women's Wellness Connection Program to support access to diagnostic services, and for other wellness initiatives.

Grants totaling \$27,530 in 2017 and \$71,308 in 2016 were received, through federally funded initiatives, from Colorado Rural Health Center in support of the Medical Center's participation in the I-Care quality initiatives and emergency preparedness activities. Additionally, in 2017 and 2016 the Foundation received grants from the Division of Local Affairs in the amounts of \$1,682 and \$190,003, respectively, to partially fund the purchase of the new 64 slice CT scanner.

In 2017 and 2016, the Foundation collected unrestricted donations in the amount of \$62,244 and \$34,811, respectively; donations for an Infant Warmer purchase and pledge payments from prior campaigns, transferring an additional \$123,442 and \$205,061, respectively, to the Medical Center.

### ***The Medical Center's Cash Flows***

Changes in the Medical Center's cash flows are consistent with changes in operating revenues and expenses and nonoperating revenues, discussed earlier.

### ***Capital Assets and Debt Administration***

#### **Capital Assets**

At December 31, 2017 and 2016, the Medical Center had \$33,659,429 and \$32,089,978, respectively, of net investment in capital assets, as detailed in Note 9 to the financial statements. The net change year over year resulted from facility expansion construction in progress of \$3,539,927 and major moveable equipment purchases of \$1,181,345, comprising primarily \$914,223 for inpatient and ancillary services equipment, \$143,677 for EHR technology, \$123,445 for IT and \$573,546 for facilities infrastructure equipment; offset by an increase in accumulated depreciation of \$3,148,184.

#### **Debt**

In October 2016, the Medical Center refunded its 2006, \$30,200,000 non-rated 30-year tax-exempt revenue bonds, issued at a 5.25% fixed rate, through a privately placed 20-year promissory note at a 2.96% fixed rate. The refunding transaction included additional financing of \$10,000,000 which will be funded October 2018 to replenish cash reserves the Medical Center is expending on its outpatient pavilion, laboratory and parking expansion which began mid-2017. Interest on this additional debt will not accrue in the interim. The Medical Center had \$22,475,000 and \$23,355,000 outstanding in notes and bonds payable at December 31, 2017 and 2016, respectively. The Medical Center's formal debt issuances are subject to limitations imposed by state law.

# **Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center**

## **Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2017 and 2016**

### ***Other Economic Factors***

It is management's opinion that the continuing impact of healthcare reform focused on repeal of or changes to the Patient Protection and Affordable Care Act, the Colorado state budget impact on Medicaid funding and benefits, ongoing sequestered federal payment reductions, physician and staff recruitment challenges, the continued high cost of housing and below average income trends within the Medical Center's service area are all contributing factors to its financial risks.

### ***Contacting the Medical Center's Financial Management***

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Medical Center's Administration at 719.530.2231.

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Statements of Net Position  
December 31, 2017 and 2016**

**Assets**

	<u>2017</u>	<u>2016</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,611,420	\$ 5,419,086
Certificates of deposit	2,627,440	2,627,119
Patient accounts receivable, net of allowance for uncollectible accounts; 2017 - \$4,152,679 and 2016 - \$5,743,429	10,282,499	8,939,811
Inventories	1,929,808	1,740,187
Contributions receivable	5,000	16,167
Prepaid expenses and other	1,381,561	1,193,062
Investments internally designated by Board of Directors, current	<u>25,515,496</u>	<u>16,743,264</u>
Total current assets	<u>49,353,224</u>	<u>36,678,696</u>
<b>Noncurrent Cash and Investments</b>		
Investments internally designated by Board of Directors	7,957,257	11,109,947
Certificates of deposit	500,000	-
Externally restricted by donors	<u>343,124</u>	<u>348,002</u>
Total noncurrent cash and investments	<u>8,800,381</u>	<u>11,457,949</u>
<b>Investment in Joint Venture</b>	<u>99,153</u>	<u>150,378</u>
<b>Capital Assets, Net</b>	<u>33,659,429</u>	<u>32,089,978</u>
<b>Other Assets</b>		
Lease receivable	<u>502,624</u>	<u>536,132</u>
Total assets	<u>\$ 92,414,811</u>	<u>\$ 80,913,133</u>

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Statements of Net Position (continued)  
December 31, 2017 and 2016**

**Liabilities, Deferred Inflows of  
Resources and Net Position**

	<b>2017</b>	<b>2016</b>
<b>Current Liabilities</b>		
Accounts payable	\$ 2,155,488	\$ 859,754
Accrued compensation and paid time off	2,943,358	2,555,674
Current maturities of long-term debt	900,000	880,000
Estimated amounts due to third-party payers	3,129,557	105,343
Other current liabilities	618,066	411,807
Estimated self-insurance costs	400,000	400,000
Total current liabilities	10,146,469	5,212,578
<b>Long-term Debt</b>	21,575,000	22,475,000
Total liabilities	31,721,469	27,687,578
<b>Deferred Inflows of Resources</b>		
Lease revenue	57,864	61,722
Total liabilities and deferred inflows of resources	31,779,333	27,749,300
<b>Net Position</b>		
Net investment in capital assets	11,184,429	8,734,978
Restricted expendable		
Scholarships	36,189	42,700
Other	271,935	281,468
Restricted nonexpendable	40,000	40,000
Unrestricted	49,102,925	44,064,687
Total net position	60,635,478	53,163,833
Total liabilities, deferred inflows of resources and net position	\$ 92,414,811	\$ 80,913,133

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - \$2,910,054 and 2016 - \$4,174,079	\$ 64,971,670	\$ 59,498,457
Other operating revenue	1,123,279	720,054
Total operating revenues	66,094,949	60,218,511
<b>Operating Expenses</b>		
Salaries and wages	24,544,296	22,054,100
Employee benefits	7,607,485	7,541,199
Supplies	11,208,489	10,291,002
Purchased services	3,884,716	3,244,671
Professional fees	1,169,333	1,255,063
Depreciation	3,662,398	3,625,230
Provider fee expense	1,596,973	1,139,870
Repairs and maintenance	1,838,383	1,749,913
Lease and rental	508,249	515,059
Utilities	593,960	539,748
Insurance	320,349	293,669
Other expenses	2,522,793	1,778,918
Total operating expenses	59,457,424	54,028,442
<b>Operating Income</b>	<b>6,637,525</b>	<b>6,190,069</b>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	833,305	762,524
Interest income	328,894	208,711
Noncapital grants and gifts	478,847	438,669
Loss on investments	(27,593)	(6,957)
Interest expense	(684,796)	(1,205,071)
Gain (loss) on sale of capital assets	5,988	(18,462)
Loss on other investments	(51,224)	(37,130)
Other	(49,301)	(50,933)
Total nonoperating revenues (expenses)	834,120	91,351
<b>Excess of Revenues Over Expenses Before Capital Gifts</b>	<b>7,471,645</b>	<b>6,281,420</b>
<b>Gifts and Grants to Purchase Capital Assets</b>	<b>-</b>	<b>195,652</b>
<b>Increase in Net Position</b>	<b>7,471,645</b>	<b>6,477,072</b>
<b>Net Position, Beginning of Year</b>	<b>53,163,833</b>	<b>46,686,761</b>
<b>Net Position, End of Year</b>	<b>\$ 60,635,478</b>	<b>\$ 53,163,833</b>

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Statements of Cash Flows**

**Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Operating Activities</b>		
Receipts from, and on behalf of, patients	\$ 66,653,196	\$ 59,646,846
Payments to suppliers and contractors	(16,117,255)	(15,278,515)
Payments to employees	(31,764,097)	(29,235,774)
Other payments, net	(6,192,322)	(5,379,500)
Net cash provided by operating activities	12,579,522	9,753,057
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	833,305	762,524
Contributions	478,847	438,669
Other nonoperating expense	(49,301)	(50,933)
Net cash provided by noncapital financing activities	1,262,851	1,150,260
<b>Capital and Related Financing Activities</b>		
Gifts to purchase capital assets	-	195,652
Principal paid on long-term debt	(880,000)	(26,125,000)
Proceeds from the issuance of long-term debt	-	23,355,000
Interest paid on long-term debt	(687,467)	(1,378,975)
Purchase of capital assets	(4,273,989)	(2,955,549)
Proceeds from the sale of fixed assets	5,100	10,264
Net cash used in capital and related financing activities	(5,836,356)	(6,898,608)
<b>Investing Activities</b>		
Purchase of investments	(20,448,426)	(20,352,391)
Proceeds from disposition of investments	14,750,918	14,533,421
Investment income	301,301	201,754
Net cash used in investing activities	(5,396,207)	(5,617,216)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	2,609,810	(1,612,507)
<b>Cash and Cash Equivalents, Beginning of Year</b>	7,891,975	9,504,482
<b>Cash and Cash Equivalents, End of Year</b>	\$ 10,501,785	\$ 7,891,975

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Statements of Cash Flows (continued)  
Years Ended December 31, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>		
Cash and cash equivalents	\$ 7,611,420	\$ 5,419,086
Cash in noncurrent cash and investments		
Internally designated	2,547,241	2,124,887
Externally restricted by donors	343,124	348,002
Total cash and cash equivalents	<b>\$ 10,501,785</b>	<b>\$ 7,891,975</b>
<b>Reconciliation of Net Operating Revenues to Net Cash and Cash Equivalents Provided by Operating Activities</b>		
Operating income	\$ 6,637,525	\$ 6,190,069
Depreciation	3,662,398	3,625,230
Provision for uncollectible accounts	2,910,054	4,174,079
Changes in operating assets and liabilities		
Patient accounts receivable, net	(4,252,742)	(3,199,512)
Estimated amounts due from and to third-party payers	3,024,214	(826,178)
Accounts payable and accrued expenses	725,259	397,105
Other assets and liabilities	(127,186)	(607,736)
Net cash provided by operating activities	<b>\$ 12,579,522</b>	<b>\$ 9,753,057</b>
<b>Supplemental Cash Flows Information</b>		
Capital asset acquisition in accounts payable	<b>\$ 967,404</b>	<b>\$ 6,574</b>

# **Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center**

## **Notes to Financial Statements**

**December 31, 2017 and 2016**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations and Reporting Entity***

The financial statements include Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center (the Medical Center) and its component unit Salida Hospital Foundation d/b/a Heart of the Rockies Regional Medical Center Foundation (the Foundation), which has been included in these financial statements using the blended method. The Medical Center and the Foundation are collectively referred to as the "Organization." All significant intercompany balances and transactions have been eliminated.

The Medical Center is a 25-bed acute care facility in Salida, Colorado designated as a Critical Access Hospital (CAH). The Medical Center is governed by a Board of Directors, which is elected by Salida Hospital District residents. The Medical Center primarily earns revenues by providing inpatient and outpatient acute care and multi-specialty physician clinic services to patients from and visiting Chaffee, Fremont and Saguache counties.

#### ***Foundation***

The Foundation is a legally separate, tax-exempt component unit of the Medical Center. The Foundation's primary function is to raise and hold funds to support the Medical Center and its programs.

Although the Medical Center does not control the timing or amount of receipts from the Foundation, the Foundation's resources and related income are restricted by donors for the benefit of the Medical Center. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Medical Center, the Foundation is considered a component unit of the Medical Center and is included in the financial statements using the blended method.

#### ***Basis of Accounting and Presentation***

The financial statements of the Organization have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Organization first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

# **Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center**

## **Notes to Financial Statements**

**December 31, 2017 and 2016**

### ***Use of Estimates***

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

### ***Cash Equivalents***

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2017 and 2016, cash equivalents consisted primarily of repurchase agreements secured by ownership in Public Deposit Protection Act qualifying securities.

### ***Property Taxes***

The Medical Center received approximately 1% of its gross financial support from property taxes in 2017 and 2016. These funds were used to support operations. Taxes are recorded as revenue in the year they are assessed.

### ***Investments and Investment Income***

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at the time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. The investment in joint venture is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

### ***Patient Accounts Receivable***

The Medical Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Medical Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

### ***Inventories***

Supply inventories are stated at the lower of cost, determined by using an average calculated cost which approximates the first-in, first-out method, or market.

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Notes to Financial Statements

December 31, 2017 and 2016

### **Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center:

Land improvements	2 – 25 years
Buildings and improvements	5 – 40 years
Equipment	3 – 20 years

### **Compensated Absences**

The Medical Center's policies permit all full-time and regular part-time employees who are regularly scheduled to work at least 48 hours per pay period to accumulate paid time off benefits. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay rates in effect at the statements of net position date. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized.

### **Deferred Inflows of Resources**

The Medical Center reports decreases in net position that relate to future periods as deferred inflows of resources in separate sections of its statements of net position.

### **Net Position**

Net position of the Organization is classified in four components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Organization. Restricted nonexpendable net position are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Organization, such as permanent endowments. Unrestricted net position consists of the remaining assets less remaining liabilities not already included in the other three components.

### **Net Patient Service Revenue**

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Notes to Financial Statements

December 31, 2017 and 2016

uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

### **Charity Care**

The Medical Center provides charity care to patients who qualify under the Colorado Indigent Care Program (the Program) and/or its own charity care policy. The Program provides reimbursement for services at less than the Medical Center's established rates. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

### **Income Taxes**

As an essential government function of the counties, the Medical Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Medical Center is subject to federal income tax on any unrelated business taxable income.

The Foundation is an entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code.

### **Electronic Health Records Incentive Program**

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Medical Center's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Medical Center is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Medical Center recognized the Medicare incentive payment revenue received for qualified EHR technology expenditures during 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete.

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center  
Notes to Financial Statements  
December 31, 2017 and 2016**

During 2017 and 2016, the Medical Center recognized Medicaid incentive payments of \$379,400 and \$411,250, respectively.

***Reclassifications***

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in financial position.

***Subsequent Events***

Subsequent events have been evaluated through March 27, 2018, which is the date the financial statements were available to be issued.

**Note 2: Tax, Spending and Debt Limitations**

Colorado voters passed an amendment to the state Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments.

The Medical Center's financial activity provides the basis for calculation of limitations adjusted for allowable increases tied to inflation and local growth.

The amendment excludes enterprises from its provisions. Enterprises are defined as government-owned businesses authorized to issue revenue bonds and that receive less than 10% of their annual revenue in grants from all state and local governments combined. The Medical Center is of the opinion that its operations qualify for this exclusion.

**Note 3: Charity Care**

The costs of charity care provided under the Medical Center's charity care policy and participation in the Colorado Indigent Care Program were approximately \$147,000 and \$110,000 in 2017 and 2016, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. Applications for charitable assistance have been significantly reduced by the Medicaid expansion under the Affordable Care Act.

**Note 4: Net Patient Service Revenue**

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. These payment arrangements include:

*Medicare.* Inpatient acute care services rendered to Medicare program beneficiaries are paid on a cost reimbursed basis. Certain outpatient services related to Medicare beneficiaries are

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Notes to Financial Statements

**December 31, 2017 and 2016**

paid based on a combination of fee schedules and a cost-reimbursement methodology. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor.

*Medicaid.* Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services and defined capital costs related to Medicaid beneficiaries are paid based on a cost-reimbursement methodology. The Medical Center is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary.

Effective October 31, 2016, outpatient hospital services are paid at prospectively determined rates using the Enhanced Ambulatory Patient Grouping (EAPG) methodology. The original implementation was postponed until March 1, 2017, and payments will be adjusted retroactively to October 31, 2016.

Approximately 54% and 53% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes discounts from established charges for hospital facility services and percentages above the Medicare Fee Schedule for physician professional services.

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB 1293), was passed during 2009 implementing a fee on hospitals to generate matching funds to the State of Colorado from federal sources. Implementation of this act occurred during April of 2010 and had the following effect on the Medical Center's financial statements:

	<b>2017</b>	<b>2016</b>
Colorado Indigent Care Program - supplemental revenue	\$ 445,199	\$ 771,680
Provider fee recovery revenue, included in net patient service revenue	4,896,205	3,121,522
Provider fee expense	(1,596,973)	(1,139,870)
Effect of HB 1293	\$ 3,744,431	\$ 2,753,332

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Notes to Financial Statements  
December 31, 2017 and 2016**

Patient service revenue, after deductions for contractual allowances and uncollectible accounts, is as follows:

	<b>2017</b>		
	<b>Gross Revenue</b>	<b>Contractual Adjustments and Uncollectible Accounts</b>	<b>Net Patient Service Revenue</b>
Medicare	\$ 70,294,770	\$ 44,059,717	\$ 26,235,053
Medicaid	19,331,891	10,439,796	8,892,095
Other	<u>41,597,114</u>	<u>11,752,592</u>	<u>29,844,522</u>
	<u>\$ 131,223,775</u>	<u>\$ 66,252,105</u>	<u>\$ 64,971,670</u>
	<b>2016</b>		
	<b>Gross Revenue</b>	<b>Contractual Adjustments and Uncollectible Accounts</b>	<b>Net Patient Service Revenue</b>
Medicare	\$ 54,891,370	\$ 29,667,712	\$ 25,223,658
Medicaid	18,528,972	9,307,316	9,221,656
Other	<u>38,227,361</u>	<u>13,174,218</u>	<u>25,053,143</u>
	<u>\$ 111,647,703</u>	<u>\$ 52,149,246</u>	<u>\$ 59,498,457</u>

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Notes to Financial Statements  
December 31, 2017 and 2016**

**Note 5: Patients Accounts Receivable**

The Medical Center grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2017 and 2016 consisted of:

	<b>2017</b>	<b>2016</b>
Medicare	\$ 10,922,546	\$ 7,892,141
Medicaid	3,738,612	2,548,378
Other third-party payers	9,154,135	10,222,485
Patients	1,282,393	1,390,556
	25,097,686	22,053,560
Less allowance for contractuels and uncollectible accounts	14,815,187	13,113,749
	<b>\$ 10,282,499</b>	<b>\$ 8,939,811</b>

**Note 6: Deposits and Investments**

***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Organization's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The Colorado Public Deposit Protection Act (the PDPA) requires financial institutions to collateralize any uninsured public deposits. The bank balance is insured by federal insurance (FDIC) for up to \$250,000 for interest and noninterest bearing accounts. Any excess of deposit accounts over the FDIC limit that is not insured is covered by collateral pledged by the financial institution in accordance with the PDPA.

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Notes to Financial Statements December 31, 2017 and 2016

At December 31, 2017 and 2016, \$8,959,119 and \$7,471,288, respectively, of the Organization's bank balances of \$10,164,440 and \$8,248,789, respectively, were exposed to custodial credit risk as follows:

	<b>2017</b>	<b>2016</b>
Insured (FDIC) or collateralized with securities held by the Organization	\$ 1,205,321	\$ 777,501
Uninsured and collateral held by the pledging financial institution's trust department or agent in other than the Organization's name	8,959,119	7,471,288
	\$ 10,164,440	\$ 8,248,789

### **Investments**

The Organization may legally invest in investments in compliance with the Colorado PDPA.

At December 31, 2017 and 2016, the Organization had the following investments and maturities:

<b>Type</b>	<b>Fair Value</b>	<b>2017</b>	
		<b>Maturities in Years</b>	
		<b>Less than 1</b>	<b>1-5</b>
Repurchase agreements	\$ 3,932,986	\$ 3,932,986	\$ -
U.S. Treasury and Agency obligations	17,736,193	12,378,363	5,357,830
Money market funds	13,137,133	13,137,133	-
	\$ 34,806,312	\$ 29,448,482	\$ 5,357,830

  

<b>Type</b>	<b>Fair Value</b>	<b>2016</b>	
		<b>Maturities in Years</b>	
		<b>Less than 1</b>	<b>1-5</b>
Repurchase agreements	\$ 3,270,276	\$ 3,270,276	\$ -
U.S. Treasury and Agency obligations	13,856,946	4,901,106	8,955,840
Money market funds	11,842,158	11,842,158	-
	\$ 28,969,380	\$ 20,013,540	\$ 8,955,840

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Notes to Financial Statements

**December 31, 2017 and 2016**

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Organization’s investment policy is limited to purchasing securities that mature in five years or less from the date of purchase. Money market funds are not permitted to invest in securities with maturities longer than one year and as such are considered to be in compliance with this policy.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Organization’s policy to limit new purchases of investments to only investments in compliance with the Colorado PDPA. At December 31, 2017 and 2016, the Organization’s investments were in compliance with the policy, including the investments in money market funds which are unrated.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Organization will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities pledged as collateral for the Organization’s repurchase agreements at December 31, 2017 and 2016 are held by outside third parties. The Organization’s investment policy states that the underlying assets related to the repurchase agreements held are to be invested in federal agency securities.

Concentration of Credit Risk – The Organization will not have any single investment exceed one-third of the total portfolio, except for U.S. Treasury securities and federal agencies. At December 31, 2017 and 2016, the Organization’s investment in U.S. Treasury securities constituted 51% and 48%, respectively, of its total investments.

Foreign Currency Risk – This risk is related to adverse effects on the fair value of an investment from changes in exchange rates. The Organization’s investment policy does not permit foreign currency holdings at December 31, 2017.

### **Summary of Carrying Values**

The carrying values of deposits and investments shown above are included in the statements of net position as follows:

	<b>2017</b>	<b>2016</b>
Carrying value		
Deposits	\$ 9,694,724	\$ 7,247,378
Money market funds	13,137,133	11,842,158
Investments	21,669,179	17,127,222
Interest receivable	52,186	29,220
Cash on hand	1,515	1,440
	<b>\$ 44,554,737</b>	<b>\$ 36,247,418</b>

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Notes to Financial Statements

**December 31, 2017 and 2016**

Included in the following statements of net position captions:

	<b>2017</b>	<b>2016</b>
Cash and cash equivalents	\$ 7,611,420	\$ 5,419,086
Certificates of deposit	2,627,440	2,627,119
Investments internally designated by Board of Directors, current	25,515,496	16,743,264
Noncurrent cash and investments		
Certificates of deposit	500,000	-
Internally designated by Board of Directors	7,957,257	11,109,947
Externally restricted by donors	343,124	348,002
	\$ 44,554,737	\$ 36,247,418

### ***Investment Income***

Investment income for the years ended December 31 consisted of:

	<b>2017</b>	<b>2016</b>
Interest income/realized gains	\$ 328,894	\$ 208,711
Net change in fair value of investments - unrealized gains and losses	(27,593)	(6,957)
	\$ 301,301	\$ 201,754

### **Note 7: Disclosures About Fair Value of Assets**

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

The Organization has the following recurring fair value measurements as of December 31, 2017 and 2016:

- U.S. Treasury and Agency obligations of \$17,736,193 and \$13,856,946, respectively, are valued using quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset (Level 2 inputs)

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Notes to Financial Statements  
December 31, 2017 and 2016**

**Note 8: Investment in Joint Venture**

The investment in joint venture relates to a 50% ownership in Heart of the Rockies Home Health and Hospice, LLC. The joint venture began operations on January 1, 2006. Financial positions and results of operations of the investee are summarized below:

	<b>2017 (Unaudited)</b>	<b>2016 (Unaudited)</b>
Current assets	\$ 520,747	\$ 630,691
Property and other long-term assets, net	1,526	3,510
Total assets	522,273	634,201
Current liabilities	323,966	333,445
Members' equity	\$ 198,307	\$ 300,756
Net revenues	\$ 1,793,055	\$ 1,626,648
Net loss	\$ (91,228)	\$ (63,041)

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Notes to Financial Statements December 31, 2017 and 2016

### Note 9: Capital Assets

Capital assets activity for the years ended December 31, 2017 and 2016 were:

	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals and Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 1,773,275	\$ -	\$ -	\$ -	\$ 1,773,275
Land improvements	4,198,110	-	-	173,559	4,371,669
Buildings and improvements	22,690,748	-	-	282,660	22,973,408
Equipment	31,092,527	1,231,798	(517,184)	6,875	31,814,016
Construction in progress	211,572	4,003,021	-	(463,094)	3,751,499
	<u>59,966,232</u>	<u>5,234,819</u>	<u>(517,184)</u>	<u>-</u>	<u>64,683,867</u>
Less accumulated depreciation					
Land improvements	2,736,227	238,027	-	-	2,974,254
Buildings and improvements	6,690,064	930,729	-	-	7,620,793
Equipment	18,449,963	2,493,642	(514,214)	-	20,429,391
	<u>27,876,254</u>	<u>3,662,398</u>	<u>(514,214)</u>	<u>-</u>	<u>31,024,438</u>
Capital assets, net	<u>\$ 32,089,978</u>	<u>\$ 1,572,421</u>	<u>\$ (2,970)</u>	<u>\$ -</u>	<u>\$ 33,659,429</u>
	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals and Retirements</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 1,314,121	\$ 459,154	\$ -	\$ -	\$ 1,773,275
Land improvements	4,191,673	6,437	-	-	4,198,110
Buildings and improvements	22,161,010	-	-	529,738	22,690,748
Equipment	29,873,646	1,760,439	(1,661,832)	1,120,274	31,092,527
Construction in progress	1,213,909	647,675	-	(1,650,012)	211,572
	<u>58,754,359</u>	<u>2,873,705</u>	<u>(1,661,832)</u>	<u>-</u>	<u>59,966,232</u>
Less accumulated depreciation					
Land improvements	2,469,850	266,377	-	-	2,736,227
Buildings and improvements	5,791,286	898,778	-	-	6,690,064
Equipment	17,619,136	2,460,075	(1,629,248)	-	18,449,963
	<u>25,880,272</u>	<u>3,625,230</u>	<u>(1,629,248)</u>	<u>-</u>	<u>27,876,254</u>
Capital assets, net	<u>\$ 32,874,087</u>	<u>\$ (751,525)</u>	<u>\$ (32,584)</u>	<u>\$ -</u>	<u>\$ 32,089,978</u>

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Notes to Financial Statements December 31, 2017 and 2016

### Note 10: Long-term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended December 31, 2017 and 2016:

		2017			Amounts Due Within One Year	
		Beginning Balance	Additions	Reductions	Ending Balance	
Long-term debt	Note payable to bank	\$ 23,355,000	\$ -	\$ 880,000	\$ 22,475,000	\$ 900,000
		2016			Amounts Due Within One Year	
		Beginning Balance	Additions	Reductions	Ending Balance	
Long-term debt	Note payable to bank	\$ -	\$ 23,355,000	\$ -	\$ 23,355,000	\$ 880,000
	Bonds payable	26,125,000	-	26,125,000	-	-
	Total long-term debt	\$ 26,125,000	\$ 23,355,000	\$ 26,125,000	\$ 23,355,000	\$ 880,000

### ***Bonds Payable – Series 2006 Hospital Revenue Bonds***

The Hospital Revenue Bonds (the Bonds) consisted of Health Facilities Enterprise Revenue bonds in the original amount of \$30,200,000 dated October 1, 2006. Interest was payable semi-annually on each April 1 and October 1 with interest at 5.25%. The Bonds were subject to mandatory sinking fund redemption through October 1, 2036 and were callable on October 1, 2016. This option was exercised by the hospital during 2016.

Upon issuance of the note payable to bank (discussed below), the hospital refunded its outstanding 2006 Bonds in the amount of \$26,125,000, through a private-placement refunding.

### ***Note Payable to Bank***

The note payable to bank, in the original amount of \$23,555,000, is due October 1, 2036. Additionally, the Medical Center will borrow an additional \$10,000,000, to fund the construction, improvement, and equipping of additional hospital facilities. These proceeds will be received on October 1, 2018. Principal on the note is payable annually and interest is payable semi-annually on each April 1 and October 1 with interest at 2.96%. The note is secured by the Medical Center's net revenues.

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center  
Notes to Financial Statements  
December 31, 2017 and 2016**

The debt service requirements as of December 31, 2017, are as follows:

Year Ended December 31,	Total to be Paid	Principal	Interest
2018	\$ 1,565,260	\$ 900,000	\$ 665,260
2019	1,563,620	925,000	638,620
2020	1,566,240	955,000	611,240
2021	1,562,972	980,000	582,972
2022	1,558,964	1,005,000	553,964
2023 - 2027	7,819,212	5,515,000	2,304,212
2028 - 2032	7,817,820	6,380,000	1,437,820
2033 - 2036	6,251,748	5,815,000	436,748
	<u>\$ 29,705,836</u>	<u>\$ 22,475,000</u>	<u>\$ 7,230,836</u>

**Note 11: Risk Management**

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; 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.

The Medical Center self-insures the cost of employees' health care benefits and has purchased annual stop-loss insurance coverage for individual claims exceeding \$100,000 after satisfaction of the aggregate \$35,000 plan specific limit. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, and frequency of claims. It is possible that the Medical Center's estimate could change.

Activity in the Medical Center's accrued employee health claims liability during 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 400,000	\$ 340,525
Current year claims incurred and changes in estimates for claims incurred in prior years	3,111,173	3,387,337
Claims and expenses paid	<u>(3,111,173)</u>	<u>(3,327,862)</u>
Balance, end of year	<u>\$ 400,000</u>	<u>\$ 400,000</u>

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Notes to Financial Statements

**December 31, 2017 and 2016**

The Medical Center is a member of the Colorado Hospital Association Trust for Workers' Compensation (the Trust). The Trust was formed to provide workers' compensation insurance to member hospitals in Colorado. The Medical Center pays fixed annual premiums to the Trust. The Trust is self-funded and purchases stop-loss insurance coverage.

### Note 12: Medical Malpractice Claims

The Medical Center purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term. Further, the Medical Center is subject to the provisions of the Colorado Governmental Immunity Act, which provides a limitation on the liability of the Medical Center.

### Note 13: Restricted Net Position

At December 31, 2017 and 2016, restricted expendable and nonexpendable net position were available for the following purposes:

	<b>2017</b>	<b>2016</b>
<b>Restricted – Expendable</b>		
Scholarships	\$ 36,189	\$ 42,700
Other	271,935	281,468
	<b>\$ 308,124</b>	<b>\$ 324,168</b>
<b>Restricted – Nonexpendable</b>		
Endowment restricted by donors for investment in perpetuity	\$ 40,000	\$ 40,000

### Note 14: Employee Retirement Plan

The Medical Center has two types of defined contribution retirement plans for its employees. The first is a 401(a) Money Purchase Plan into which employees are required to contribute 3.75% of pre-tax wages in lieu of social security contributions, which are matched by the Medical Center. The second plan is a 457(b) plan which permits employees to make additional pre-tax contributions from their wages up to defined IRS limitations. The Medical Center will contribute up to 3.25% of each employee's pre-tax wages to match contributions made by the employees to the 457(b) plan. In total, the Medical Center's contributions are limited to this combined 7% and only to the extent

# Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center

## Notes to Financial Statements

December 31, 2017 and 2016

of each individual employee's contributions to the plans up to a maximum of \$15,000 per employee.

Pension expense is recorded for the amount of the Medical Center's required contributions and administrative fees determined in accordance with the terms of the plans. The Medical Center has an appointed investment committee, including the CEO and an external investment advisor, to administer the plan. Benefit provisions are contained in the plan document and, where established, can be amended by action of the Medical Center's Board of Directors and management. Employee contributions of pretax wages are subject to a maximum set by the Internal Revenue Service.

Contribution rates to all plans for plan members and the Medical Center expressed as a percentage of covered payrolls were 9.84% and 6.38% for 2017 and 9.03% and 5.81% for 2016, respectively. Contributions actually made by plan members and the Medical Center aggregated \$2,414,115 and \$1,566,400 during 2017, and \$2,184,986 and \$1,405,488 during 2016.

### **Note 15: Commitments and Contingencies**

#### ***Litigation***

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Medical Center's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. No such loss has been recorded for the year ended December 31, 2017. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

#### ***Future Land Development***

In 2017, the Medical Center began work on land development driven by its 2016 purchase of vacant land and by the hospital expansion project. The Board of Directors approved an estimated \$1 million to begin work on the contractual obligation of relocating an adjacent county road and bringing water, sewer and dry utilities to it. Construction of an internal road extension and highway access to provide a second campus access needed to support additional traffic volume expected with the expansion project is also included. Further plans include the construction of a hangar, crew quarters and taxiway to be leased as a long-term home for medical air transport services and development of several lots which will be available for purchase by other entities providing health care services. The Medical Center is currently evaluating the associated costs and timing.

# **Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center**

## **Notes to Financial Statements**

**December 31, 2017 and 2016**

### ***Expansion of Medical Center Facilities***

In 2017, the Medical Center received approval from the Board of Directors to proceed with the expansion project which had been under design and cost development with architects, engineers and a construction management/general contractor since 2016. The expansion includes the addition of approximately 1,400 square feet to the current laboratory facilities, two employee parking lots adding 158 spaces and a three story 50,000 square foot outpatient pavilion to house the Medical Center's specialty provider based clinics, in addition to expanded outpatient rehabilitation and wellness services. Work began on the parking lots and outpatient pavilion foundations following ground breaking in April 2017 and board approval of an initial \$1.6 million construction contract. The board approved a final construction Guaranteed Maximum Price of \$20.2 million at its February 2018 meeting and accepted the contractor's schedule projecting completion of the parking lots by second quarter 2018, the lab expansion by the end of November 2018 and of the outpatient pavilion by the end of February 2019. The Medical Center will fund the expansion project with cash reserves and will also borrow an additional \$10 million in October 2018, according to the terms of its bond refinancing note executed October 2016.

## **Supplementary Information**

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Combining Statement of Net Position  
December 31, 2017**

**Assets**

	<b>Medical Center</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 7,075,468	\$ 535,952	\$ -	\$ 7,611,420
Certificates of deposit	2,422,119	205,321	-	2,627,440
Patient accounts receivable, net of allowance of \$4,152,679	10,282,499	-	-	10,282,499
Inventories	1,929,808	-	-	1,929,808
Contributions receivable	-	5,000	-	5,000
Prepaid expenses and other	1,381,057	1,359	(855)	1,381,561
Investments internally designated by Board of Directors, current	25,515,496	-	-	25,515,496
Total current assets	<u>48,606,447</u>	<u>747,632</u>	<u>(855)</u>	<u>49,353,224</u>
<b>Noncurrent Cash and Investments</b>				
Investments internally designated by Board of Directors	7,957,257	-	-	7,957,257
Certificates of deposit	500,000	-	-	500,000
Externally restricted by donors	135,140	207,984	-	343,124
Total noncurrent cash and investments	<u>8,592,397</u>	<u>207,984</u>	<u>-</u>	<u>8,800,381</u>
<b>Investment in Joint Venture</b>	<u>99,153</u>	<u>-</u>	<u>-</u>	<u>99,153</u>
<b>Capital Assets, Net</b>	<u>33,659,429</u>	<u>-</u>	<u>-</u>	<u>33,659,429</u>
<b>Other Assets</b>				
Lease receivable	502,624	-	-	502,624
Total assets	<u>\$ 91,460,050</u>	<u>\$ 955,616</u>	<u>\$ (855)</u>	<u>\$ 92,414,811</u>

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Combining Statement of Net Position (continued)**

**December 31, 2017**

**Liabilities, Deferred Inflows of  
Resources and Net Position**

**Current Liabilities**

	<b>Medical Center</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
Accounts payable	\$ 2,156,045	\$ 298	\$ (855)	\$ 2,155,488
Accrued compensation and paid time off	2,943,358	-	-	2,943,358
Current maturities of long-term debt	900,000	-	-	900,000
Estimated amounts due to third-party payers	3,129,557	-	-	3,129,557
Other current liabilities	618,066	-	-	618,066
Estimated self-insurance costs	400,000	-	-	400,000

Total current liabilities

	10,147,026	298	(855)	10,146,469
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**Long-term Debt**

	21,575,000	-	-	21,575,000
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Total liabilities

	31,722,026	298	(855)	31,721,469
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**Deferred Inflows of Resources**

Lease revenue	57,864	-	-	57,864
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Total liabilities and deferred  
inflows of resources

	31,779,890	298	(855)	31,779,333
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**Net Position**

Net investment in capital assets	11,184,429	-	-	11,184,429
Restricted expendable				
Scholarships	-	36,189	-	36,189
Other	95,140	176,795	-	271,935
Restricted nonexpendable	40,000	-	-	40,000
Unrestricted	48,360,591	742,334	-	49,102,925

Total net position

	59,680,160	955,318	-	60,635,478
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Total liabilities, deferred inflows  
of resources and net position

	\$ 91,460,050	\$ 955,616	\$ (855)	\$ 92,414,811
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**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Combining Statement of Net Position  
December 31, 2016**

**Assets**

	<b>Medical Center</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 4,930,737	\$ 488,349	\$ -	\$ 5,419,086
Certificates of deposit	2,419,958	207,161	-	2,627,119
Patient accounts receivable, net of allowance of \$5,743,429	8,939,811	-	-	8,939,811
Inventories	1,740,187	-	-	1,740,187
Contributions receivable	-	16,167	-	16,167
Prepaid expenses and other	1,193,007	55	-	1,193,062
Investments internally designated by Board of Directors, current	16,743,264	-	-	16,743,264
Total current assets	<u>35,966,964</u>	<u>711,732</u>	<u>-</u>	<u>36,678,696</u>
<b>Noncurrent Cash and Investments</b>				
Investments internally designated by Board of Directors	11,109,947	-	-	11,109,947
Externally restricted by donors	137,968	210,034	-	348,002
Total noncurrent cash and investments	<u>11,247,915</u>	<u>210,034</u>	<u>-</u>	<u>11,457,949</u>
<b>Investment in Joint Venture</b>	<u>150,378</u>	<u>-</u>	<u>-</u>	<u>150,378</u>
<b>Capital Assets, Net</b>	<u>32,089,978</u>	<u>-</u>	<u>-</u>	<u>32,089,978</u>
<b>Other Assets</b>				
Lease receivable	536,132	-	-	536,132
Total assets	<u><u>\$ 79,991,367</u></u>	<u><u>\$ 921,766</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 80,913,133</u></u>

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**

**Combining Statement of Net Position (continued)**

**December 31, 2016**

**Liabilities, Deferred Inflows of  
Resources and Net Position**

	<b>Medical Center</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Current Liabilities</b>				
Accounts payable	\$ 859,140	\$ 614	\$ -	\$ 859,754
Accrued compensation and paid time off	2,555,674	-	-	2,555,674
Current maturities of long-term debt	880,000	-	-	880,000
Estimated amounts due to third-party payers	105,343	-	-	105,343
Other current liabilities	411,807	-	-	411,807
Estimated self-insurance costs	400,000	-	-	400,000
Total current liabilities	5,211,964	614	-	5,212,578
<b>Long-term Debt</b>	<b>22,475,000</b>	<b>-</b>	<b>-</b>	<b>22,475,000</b>
Total liabilities	27,686,964	614	-	27,687,578
<b>Deferred Inflows of Resources</b>				
Lease revenue	61,722	-	-	61,722
Total liabilities and deferred inflows of resources	27,748,686	614	-	27,749,300
<b>Net Position</b>				
Net investment in capital assets	8,734,978	-	-	8,734,978
Restricted expendable				
Scholarships	-	42,700	-	42,700
Other	97,968	183,500	-	281,468
Restricted nonexpendable	40,000	-	-	40,000
Unrestricted	43,369,735	694,952	-	44,064,687
Total net position	52,242,681	921,152	-	53,163,833
Total liabilities, deferred inflows of resources and net position	\$ 79,991,367	\$ 921,766	\$ -	\$ 80,913,133

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**  
**Combining Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2017**

	<b>Medical Center</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Operating Revenues</b>				
Net patient service revenue, net of provision for uncollectible accounts of \$2,910,054	\$ 64,971,670	\$ -	\$ -	\$ 64,971,670
Other operating revenue	1,123,279	-	-	1,123,279
Total operating revenues	66,094,949	-	-	66,094,949
<b>Operating Expenses</b>				
Salaries and wages	24,537,245	7,051	-	24,544,296
Employee benefits	7,607,485	-	-	7,607,485
Supplies	11,208,489	-	-	11,208,489
Purchased services	3,880,716	4,000	-	3,884,716
Professional fees	1,169,333	-	-	1,169,333
Depreciation	3,662,398	-	-	3,662,398
Provider fee expense	1,596,973	-	-	1,596,973
Repairs and maintenance	1,838,383	-	-	1,838,383
Lease and rental	508,249	-	-	508,249
Utilities	593,960	-	-	593,960
Insurance	320,349	-	-	320,349
Other expenses	2,515,609	7,184	-	2,522,793
Total operating expenses	59,439,189	18,235	-	59,457,424
<b>Operating Income (Loss)</b>	<b>6,655,760</b>	<b>(18,235)</b>	<b>-</b>	<b>6,637,525</b>
<b>Nonoperating Revenues (Expenses)</b>				
Property taxes	833,305	-	-	833,305
Interest income	324,777	4,117	-	328,894
Noncapital grants and gifts	319,155	221,027	(61,335)	478,847
Contributions to the Medical Center	-	(123,442)	123,442	-
Loss on investments	(27,593)	-	-	(27,593)
Interest expense	(684,796)	-	-	(684,796)
Gain on sale of capital assets	5,988	-	-	5,988
Loss on other investments	(51,224)	-	-	(51,224)
Other	-	(49,301)	-	(49,301)
Total nonoperating revenues (expenses)	719,612	52,401	62,107	834,120
<b>Excess of Revenues Over Expenses</b>				
<b>Before Capital Gifts</b>	<b>7,375,372</b>	<b>34,166</b>	<b>62,107</b>	<b>7,471,645</b>
<b>Gifts and Grants to Purchase Capital Assets</b>	<b>62,107</b>	<b>-</b>	<b>(62,107)</b>	<b>-</b>
<b>Increase in Net Position</b>	<b>7,437,479</b>	<b>34,166</b>	<b>-</b>	<b>7,471,645</b>
<b>Net Position, Beginning of Year</b>	<b>52,242,681</b>	<b>921,152</b>	<b>-</b>	<b>53,163,833</b>
<b>Net Position, End of Year</b>	<b>\$ 59,680,160</b>	<b>\$ 955,318</b>	<b>\$ -</b>	<b>\$ 60,635,478</b>

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center**  
**Combining Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2016**

	<b>Medical Center</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Combined</b>
<b>Operating Revenues</b>				
Net patient service revenue, net of provision for uncollectible accounts of \$4,174,079	\$ 59,498,457	\$ -	\$ -	\$ 59,498,457
Other operating revenue	720,054	-	-	720,054
Total operating revenues	<u>60,218,511</u>	<u>-</u>	<u>-</u>	<u>60,218,511</u>
<b>Operating Expenses</b>				
Salaries and wages	22,048,850	5,250	-	22,054,100
Employee benefits	7,541,199	-	-	7,541,199
Supplies	10,291,002	-	-	10,291,002
Purchased services	3,241,271	3,400	-	3,244,671
Professional fees	1,255,063	-	-	1,255,063
Depreciation	3,625,230	-	-	3,625,230
Provider fee expense	1,139,870	-	-	1,139,870
Repairs and maintenance	1,749,913	-	-	1,749,913
Lease and rental	515,059	-	-	515,059
Utilities	539,748	-	-	539,748
Insurance	293,669	-	-	293,669
Other expenses	1,770,069	8,849	-	1,778,918
Total operating expenses	<u>54,010,943</u>	<u>17,499</u>	<u>-</u>	<u>54,028,442</u>
<b>Operating Income (Loss)</b>	<u>6,207,568</u>	<u>(17,499)</u>	<u>-</u>	<u>6,190,069</u>
<b>Nonoperating Revenues (Expenses)</b>				
Property taxes	762,524	-	-	762,524
Interest income	206,908	1,803	-	208,711
Noncapital grants and gifts	447,192	132,693	(141,216)	438,669
Contributions to the Medical Center	-	(205,061)	205,061	-
Loss on investments	(6,957)	-	-	(6,957)
Interest expense	(1,205,071)	-	-	(1,205,071)
Loss on sale of capital assets	(18,462)	-	-	(18,462)
Loss on other investments	(37,130)	-	-	(37,130)
Other	-	(50,933)	-	(50,933)
Total nonoperating revenues (expenses)	<u>149,004</u>	<u>(121,498)</u>	<u>63,845</u>	<u>91,351</u>
<b>Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts</b>	<u>6,356,572</u>	<u>(138,997)</u>	<u>63,845</u>	<u>6,281,420</u>
<b>Gifts and Grants to Purchase Capital Assets</b>	<u>259,497</u>	<u>-</u>	<u>(63,845)</u>	<u>195,652</u>
<b>Increase (Decrease) in Net Position</b>	<u>6,616,069</u>	<u>(138,997)</u>	<u>-</u>	<u>6,477,072</u>
<b>Net Position, Beginning of Year</b>	<u>45,626,612</u>	<u>1,060,149</u>	<u>-</u>	<u>46,686,761</u>
<b>Net Position, End of Year</b>	<u>\$ 52,242,681</u>	<u>\$ 921,152</u>	<u>\$ -</u>	<u>\$ 53,163,833</u>

**Salida Hospital District d/b/a Heart of the Rockies  
Regional Medical Center  
Budget and Actual Revenues and Expenses – Medical Center Only  
Year Ended December 31, 2017**

	<b>Actual</b>	<b>Budget</b>	<b>Favorable (Unfavorable) Variance</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 64,971,670	\$ 61,101,357	\$ 3,870,313
Other operating revenue	1,123,279	707,669	415,610
	<u>66,094,949</u>	<u>61,809,026</u>	<u>4,285,923</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	32,144,730	32,656,100	511,370
Other operating expenses	27,294,459	26,817,046	(477,413)
	<u>59,439,189</u>	<u>59,473,146</u>	<u>33,957</u>
<b>Operating Income</b>	6,655,760	2,335,880	4,319,880
<b>Nonoperating Revenues (Expenses), Net</b>	<u>719,612</u>	<u>534,701</u>	<u>184,911</u>
<b>Excess of Revenues Over Expenses     Before Capital Gifts</b>	<u>\$ 7,375,372</u>	<u>\$ 2,870,581</u>	<u>\$ 4,504,791</u>

**Note to Schedule**

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.

Appropriations are adopted by resolution in total. There were no supplemental budgets adopted during 2017.