

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

Independent Auditor's Report and Financial Statements

December 31, 2018 and 2017

**Salida Hospital District d/b/a Heart of the Rockies
Regional Medical Center
December 31, 2018 and 2017**

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Independent Auditor's Report

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, 2018 and 2017, 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, 2018 and 2017, 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 as 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 that collectively comprise the Medical Center's basic financial statements. 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 as listed in the table of contents are presented for purposes of additional analysis and are 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 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 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 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BKD, LLP

Colorado Springs, Colorado
March 28, 2019

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2018 and 2017

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, 2018 and 2017. 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 \$8,753,390 in 2018 and increased by \$8,307,319 in 2017.
- Net position increased in 2018 by \$11,872,629 and increased in 2017 by \$7,471,645.

Heart of the Rockies Regional Medical Center

- Cash and investments increased in 2018 by \$8,730,115, or 20%, and increased in 2017 by \$8,263,606, or 23%.
- Net position increased in 2018 by \$11,799,900, or 20%, and increased in 2017 by \$7,437,479, or 14%.
- Operating income increased in 2018 by \$3,912,216, or 59%, and increased in 2017 by \$448,192, or 7%.
- Total operating revenues increased in 2018 by \$11,448,283, or 17%, and increased in 2017 by \$5,876,438, or 10%.
- Total operating expenses increased in 2018 by \$7,536,067, or 13%, and increased in 2017 by \$5,428,246, or 10%.

Salida Hospital Foundation

- Cash and investments increased by \$23,275, or 2%, in 2018 and increased by \$43,713, or 5%, in 2017.
- Net position increased by \$72,729, or 8%, in 2018, and increased by \$34,166, or 4%, in 2017.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2018 and 2017

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 statements of net position, increased by \$11,872,629, or 20%, over 2017, 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, 2018 and 2017

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 2018 are the increases in net patient accounts receivable, investments internally designated by the Board of Directors, net capital assets, noncurrent cash and investments, current liabilities, long-term debt and net position, and the decreases in cash and cash equivalents and other current investments. Changes of note in 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.

	2018	2017	2016
Assets			
Cash and cash equivalents	\$ 5,294,411	\$ 7,611,420	\$ 5,419,086
Patient accounts receivable, net	11,040,333	10,282,499	8,939,811
Investments internally designated by Board of Directors, current	31,483,505	25,515,496	16,743,264
Other current investments	864,360	2,627,440	2,627,119
Other current assets	4,008,498	3,316,369	2,949,416
Capital assets, net	46,409,472	33,659,429	32,089,978
Noncurrent cash and investments	15,665,851	8,800,381	11,457,949
Investment in joint venture	56,551	99,153	150,378
Other assets	469,116	502,624	536,132
	<u>\$ 115,292,097</u>	<u>\$ 92,414,811</u>	<u>\$ 80,913,133</u>
Liabilities and Deferred Inflows of Resources			
Current liabilities (including current maturities on long-term debt)	\$ 12,509,983	\$ 10,146,469	\$ 5,212,578
Long-term debt	30,220,000	21,575,000	22,475,000
Deferred inflows of resources - lease revenue	54,007	57,864	61,722
	<u>42,783,990</u>	<u>31,779,333</u>	<u>27,749,300</u>
Net Position			
Net investment in capital assets	14,834,472	11,184,429	8,734,978
Restricted			
Expendable	365,254	308,124	324,168
Nonexpendable	40,000	40,000	40,000
Unrestricted	57,268,381	49,102,925	44,064,687
	<u>72,508,107</u>	<u>60,635,478</u>	<u>53,163,833</u>
	<u>\$ 115,292,097</u>	<u>\$ 92,414,811</u>	<u>\$ 80,913,133</u>
Total liabilities, deferred inflows of resources and net position			

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2018 and 2017

In 2018, the Medical Center experienced continued success. A balanced strategic and operational focus, emphasizing Service, People, Quality, Finance, Facilities, Growth, and Physician Relations, continues to be fundamental.

The Medical Center added several physicians to existing service lines including the rural health, internal medicine and neurology clinics, and opened allergy and audiology clinics with the employment of two additional providers. Its outpatient dialysis clinic, opened in 2017, continued to see growth in patient volumes and is pursuing certification to add peritoneal in addition to hemodialysis services. Construction on the campus expansion to provide additional employee parking, a laboratory expansion and a three story outpatient pavilion to house its outpatient rehabilitation, wellness services and all specialty physician clinics, which began in 2017, continued through 2018 with completion of the employee parking lots by February. Construction on the first phase of the master facility plan development envisioned in 2017 also began in 2018. This activity is reflected in the decreases in cash and cash equivalents and other current investments.

Inpatient admissions decreased by 1% although patient days increased by 4%, contrary to national trends, while inpatient surgeries decreased 5%. Outpatient services saw a mix of increases and decreases in volumes over 2017 with increases in: (1) physician clinics, 21%, (2) rehab services, 14%, (3) chemo therapy and infusion services, 11%, and (4) laboratory services, 2%, and decreases in (1) surgery, 3%, and (2) emergency department, 2%. The Medical Center continued to benefit from improved reimbursement under the Medicaid expansion program and recovered, to a degree, from the catastrophic implementation failures of 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.

The increase in net patient accounts receivable of \$757,834, or 7%, in 2018 represents a decrease in net days outstanding from 54.8 to 51.1 and an overall 15% growth in services and associated gross revenue. Implementation of effective systems and processes combined with strong management contributed to this achievement which provided significant cash flow to fund the expansion project.

In 2018 and 2017, capital assets net of depreciation were impacted by the annual acquisition of new and replacement capital equipment, construction in progress related to the building expansion and master facility plan development, disposal of retired equipment and an increase in accumulated depreciation.

The decrease in other current investments, in 2018 is attributable to non-renewal of a matured bank certificate of deposit with funds being alternately invested in the laddered investment portfolio for improved returns.

The 2018 and 2017 increases in current liabilities represents construction, architect and project management fees payable, construction retainage and an increase in Medicare and Medicaid cost report settlements.

Long-term debt increased in 2018 with funding of the final \$10 million borrowing and decreased in 2017 under the terms of the promissory note issued in 2016 to refund the 2006 Revenue Bonds. The Medical Center was able to significantly fund its construction projects from short-term operating cash enabling it to invest the additional borrowed funds; resulting in the increase in non-

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2018 and 2017

current cash and investments in 2018. The decrease in noncurrent cash and investments in 2017 is attributable to a change in the Medical Center's portfolio related to liquidity needs.

Operating Results and Changes in the Organization's Net Position

In 2018, the Organization's increase in net position was \$11,872,629 as shown in Table 2. This increase is made up of the following components:

Table 2: Operating Results and Changes in Net Position

	2018	2017	2016
Operating Revenues			
Net patient service revenue, net	\$ 76,203,300	\$ 64,971,670	\$ 59,498,457
Other operating revenue	<u>1,339,932</u>	<u>1,123,279</u>	<u>720,054</u>
Total operating revenues	<u>77,543,232</u>	<u>66,094,949</u>	<u>60,218,511</u>
Operating Expenses			
Salaries, wages and employee benefits	37,569,642	32,151,781	29,595,299
Purchased services and professional fees	4,972,060	5,054,049	4,499,734
Depreciation	3,643,655	3,662,398	3,625,230
Other operating expenses	<u>20,809,446</u>	<u>18,589,196</u>	<u>16,308,179</u>
Total operating expenses	<u>66,994,803</u>	<u>59,457,424</u>	<u>54,028,442</u>
Operating Income	<u>10,548,429</u>	<u>6,637,525</u>	<u>6,190,069</u>
Nonoperating Revenues (Expenses)			
Property taxes	888,326	833,305	762,524
Interest income	729,969	328,894	208,711
Other nonoperating revenues and expenses, net	<u>(357,246)</u>	<u>(328,079)</u>	<u>(879,884)</u>
Net nonoperating revenues (expenses)	<u>1,261,049</u>	<u>834,120</u>	<u>91,351</u>
Gifts and Grants to Purchase Capital Assets	<u>63,151</u>	<u>-</u>	<u>195,652</u>
Increase in Net Position	<u><u>\$ 11,872,629</u></u>	<u><u>\$ 7,471,645</u></u>	<u><u>\$ 6,477,072</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, 2018 and 2017

Operating Income

The first component of the overall change in the Organization's net position for 2018 and 2017 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. A surgical, clinic and support areas expansion followed in 2012 with a further build out in late 2014 providing for a third operating room which opened early 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, and in 2017 received Centers for Medicare and Medicaid 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. During this growth in hospital services the Medical Center also focused on expanding primary and specialty physician clinics. After the 2011 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 and clinic services, significant annual growth in physician clinic specialties began in 2014 and continued into 2018 with the addition of otolaryngology, audiology and allergy clinics. The Medical Center's operating income for 2018 increased by \$3,912,216, or 59%, and for 2017 increased by \$448,192, or 7%, respectively. The primary components of these changes are:

- In 2018 and 2017, an increase in net patient service revenue of \$11,231,630, or 17%, and \$5,473,213, or 9%, respectively.
 - Gross patient revenues increased by \$19,574,673, or 15%, in 2018 and by \$19,576,072, or 18%, in 2017.
 - Services had an aggregate price increase of 5% in 2018 and in 2017.
 - Contrary to national trends, and despite the 1% decrease in inpatient admissions from 2018 to 2017, average length of stay increased to 3.41 in 2018 from 3.23 in 2017, resulting in a 4% increase in patient days.
 - Total outpatient visits increased in 2018 by 4.6% and in 2017 by 5.3%.
 - Emergency department visits decreased by 2% in 2018 and 2017. Based on the Medical Center's continued 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 continued their primary care medical homes relationships.
 - Rehabilitation services increased by 14% in 2018 and by 3% in 2017.
 - Infusion department visits increased by 11% in 2018 and by 17% in 2017.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2018 and 2017

- Imaging services including CT, MRI, x-rays, fluoroscopy, mammography and nuclear medicine saw no growth after a 2% increase in 2017, primarily with changes in coverage for fluoroscopy services having an impact.
- Lab saw slower growth with a 2% increase in 2018 as compared to the 7% increase in 2017.
- Dialysis Clinic treatments increased by 32% in 2018. The Dialysis Clinic was certified by the Centers for Medicare and Medicaid Services on January 3, 2017 and provided 1,851 treatments, in 2017, as compared to the 79 treatments performed in the last two months of 2016.
- Physician clinic visits increased by 21% in 2018, reflecting the addition of ENT, Audiology and Allergy providers and growth in eight of eleven specialties. The 33% increase in 2017 was 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.
- Outpatient surgeries decreased by 3% in 2018, primarily due to orthopedic physician availability, and increased by 8% in 2017, primarily related to pain management and general surgeries.
- The Medical Center recorded a decrease in deductions as a percentage of gross revenue of 1% in 2018 and an increase in deductions as a percentage of gross revenue of 5% in 2017. Deductions from gross revenues result from changes to the listed price of services imposed by Medicare and Medicaid reimbursement rules, as well as changes negotiated with other third-party payers.
 - The 2% Medicare sequestration increased 2018 and 2017 deductions by \$372,223 and \$322,670, respectively.
 - In 2018, inpatient and outpatient volume increases, in excess of cost increases, decreased Medicare deductions by increasing per diem payments for inpatient by 3%, increased deductions by decreasing per diem payments for swing bed by 6% and by decreasing outpatient charge based payments by 3%.
 - Both 2018 and 2017 deductions have been reduced by Medicaid supplemental payments in the amount of \$5,280,351 and \$4,896,205, respectively, under the Colorado Healthcare Accountability and Sustainability Enterprise Legislation adopted by the State of Colorado. In addition, 2018 deductions also decreased by \$700,000, 0.5% of gross revenue, due to the release of a FY2015 reserve following the state's audit of the disproportionate share (DSH) component of the Medicare Provider Fee supplemental payments. 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, 2018 and 2017

- Charity and other deductions increased \$546,853 in 2018 (from 0.7% to 0.9% of gross revenue) compared to the increase of \$764,990 (from 0.2% to 0.7% of gross revenue) in 2017. Supplemental Colorado Indigent Care Program payments under the Medicaid Provider Fee legislation in 2018 in the amount of \$542,385 exceeded write offs by \$230,131, and in 2017 in the amount of \$445,199 exceeded write offs by \$113,656.
- Salaries, wages and benefits for the Medical Center's employees increased by \$5,417,861, or 17%, in 2018 and \$2,556,482, or 9%, in 2017.
 - Employee salaries and benefits increased in 2018 in part due to an increase of 19.6 full-time equivalents (FTEs) in nursing and physician clinics and 5.2 FTEs in ancillary/outreach/wellness services. The 2017 increase was 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 Medical Center's self-insured employee health plan realized a \$1,369,091 increase in claims expense following the \$231,936 decrease in 2017. This is representative 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 2018 and 2017 were also attributable to average salary increases of 3% in addition to a 2018 change in the Colorado Hospital Association survey data groupings used to evaluate market adjustments. Early implementation in October, as opposed to the traditional January 1 of the following year, also played a role and a significant number of employees, including all nursing staff, received market adjustments. These increases contributed to success in the Medical Center's retention and recruitment efforts. The Medical Center maintained a turnover rate of 15% in 2018 and 14% in 2017, well below the state average of 24%.
- Depreciation expense decreased by \$18,743 to \$3,643,655, or 5%, of total operating expenses in 2018 and increased by \$37,168 to \$3,662,398, or 6%, of total operating expenses in 2017.
 - 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 2018 the largest additions to major moveable equipment were a C-Arm and Mini C-Arm for operative imaging, patient monitoring systems and an infant security system. Purchases in 2017 primarily included a Nuclear Medicine Camera, 3D Echocardiography Ultrasound and an electronic documentation system upgrade for meaningful use attestation. Both 2018 and 2017 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, 2018 and 2017

- Purchased services and professional fees decreased by \$81,989, or 2%, in 2018 and increased by \$554,315, or 12%, in 2017. Purchased services and professional fees are impacted by a number of operational decisions.
 - In 2018, staffing changes and recruitment success resulted in a reduction in the use of agency and contract staffing in acute and ICU inpatient departments in addition to the lab. Recruitment of trained surgical nurses remained a significant challenge with agency and contract staffing in place throughout the year.
 - In 2018, an increase in professional fees resulted from successful recruitment of several independent contractor physicians with specialties in ENT, Allergy, Neurology and Orthopedics. Locum tenens coverage for the Oncology clinic due to a provider absence also contributed.
- Supplies expense increased by \$1,916,641, or 17%, in 2018 and increased by \$917,487, or 9%, in 2017.
 - Departmental supplies, driven by offsetting volume and service line changes, increased by 10.5% in 2018 and by 1.5% in 2017.
 - Pharmaceuticals expense increased 23% in 2018 and 2017, commensurate with volume increases of 28% and 31% respectively, with internal automated auditing capabilities continuing to enable purchasing at discounted 340B pricing despite market increases in many 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 less than 1% of gross financial support. Property taxes increased 7% and 9% in 2018 and 2017, respectively, according to Statutory Property Tax Revenue Limitations.

Investment income increased 123% in 2018 with an increase in the investment portfolio and an overall improvement in reinvested fund returns. The Medical Center incurred interest expense in 2018 and 2017 on the long-term debt outstanding that was used to finance the current hospital facility.

The Medical Center also recorded a \$70,585 unrealized gain on investments in 2018 compared to a \$27,593 unrealized loss on investments in 2017. 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 \$42,602 and \$51,224 in 2018 and 2017, respectively.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2018 and 2017

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 2018 and 2017 of \$223,444 and \$228,658, respectively, were received primarily from the Women's Wellness Connection Program to support access to diagnostic services, and for other wellness initiatives.

Additionally, in 2018 and 2017 the Foundation received grants from Colorado Grand Inc. and the Division of Local Affairs in the amounts of \$5,000 and \$1,682, respectively, to partially fund emergency preparedness activities and the purchase of the new 64 slice CT scanner.

In 2018 and 2017, the Foundation collected unrestricted donations in the amount of \$29,582 and \$62,244, respectively. Donations for a trail expansion on the hospital property to support growth in the wellness program and additional restricted contributions were transferred to the Medical Center in the amounts of \$17,954 and \$123,442, respectively.

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, 2018 and 2017, the Medical Center had \$46,409,472 and \$33,659,429, respectively, of net investment in capital assets, as detailed in Note 10 to the financial statements. The net change year over year resulted from facility expansion construction in progress of \$15,047,696, land development of \$2,183,719 and major moveable equipment purchases of \$1,307,950, comprising primarily \$1,084,130 for inpatient, ancillary and clinic services equipment, \$16,229 for EHR technology, \$135,771 for IT and \$71,820 for facilities infrastructure and equipment; offset by an increase in accumulated depreciation of \$2,419,448.

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 was funded October 2018 to replenish cash reserves the Medical Center is expending on its outpatient pavilion, laboratory and parking expansion which began mid-2017. The Medical Center had \$31,575,000 and \$22,475,000 outstanding in notes and bonds payable at December 31, 2018 and 2017, 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, 2018 and 2017

Other Economic Factors

It is management's opinion that the continuing impact of healthcare legislation at both the national and state levels focused on repeal of or changes to the Patient Protection and Affordable Care Act, implementation of a Colorado single payer system as well as reductions in reimbursement to fund a statewide reinsurance program to lower individual market premiums, ongoing sequestered federal payment reductions, physician and staff recruitment and retention 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, 2018 and 2017**

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 5,294,411	\$ 7,611,420
Certificates of Deposit	864,360	2,627,440
Patient accounts receivable, net of allowance for uncollectible accounts; 2018 - \$3,228,841 and 2017 - \$4,152,679	11,040,333	10,282,499
Inventories	2,145,982	1,929,808
Contributions receivable	-	5,000
Prepaid expenses and other	1,862,516	1,381,561
Cash and investments internally designated by Board of Directors, current	31,483,505	25,515,496
Total current assets	52,691,107	49,353,224
Noncurrent Cash and Investments		
Cash and investments internally designated by Board of Directors	14,815,672	7,957,257
Certificates of Deposit	500,000	500,000
Externally restricted by donors	350,179	343,124
Total noncurrent cash and investments	15,665,851	8,800,381
Investment in Joint Venture	56,551	99,153
Capital Assets, Net	46,409,472	33,659,429
Other Assets		
Lease receivable	469,116	502,624
Total assets	\$ 115,292,097	\$ 92,414,811

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

**Statements of Net Position (continued)
December 31, 2018 and 2017**

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

	2018	2017
Current Liabilities		
Accounts payable	\$ 4,137,624	\$ 2,155,488
Accrued compensation and paid time off	3,407,567	2,943,358
Current maturities of long-term debt	1,355,000	900,000
Estimated amounts due to third-party payers	2,683,224	3,129,557
Other current liabilities	426,568	618,066
Estimated self-insurance costs	500,000	400,000
Total current liabilities	12,509,983	10,146,469
Long-term Debt	30,220,000	21,575,000
Total liabilities	42,729,983	31,721,469
Deferred Inflows of Resources		
Lease revenue	54,007	57,864
Total liabilities and deferred inflows of resources	42,783,990	31,779,333
Net Position		
Net investment in capital assets	14,834,472	11,184,429
Restricted expendable		
Scholarships	29,349	36,189
Other	335,905	271,935
Restricted nonexpendable	40,000	40,000
Unrestricted	57,268,381	49,102,925
Total net position	72,508,107	60,635,478
Total liabilities, deferred inflows of resources and net position	\$ 115,292,097	\$ 92,414,811

**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, 2018 and 2017**

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2018 - \$2,715,688 and 2017 - \$2,910,054	\$ 76,203,300	\$ 64,971,670
Other operating revenue	1,339,932	1,123,279
Total operating revenues	77,543,232	66,094,949
Operating Expenses		
Salaries and wages	27,787,561	24,544,296
Employee benefits	9,782,081	7,607,485
Supplies	13,125,130	11,208,489
Purchased services	3,768,512	3,884,716
Professional fees	1,203,548	1,169,333
Depreciation	3,643,655	3,662,398
Provider fee expense	1,833,305	1,596,973
Repairs and maintenance	2,124,674	1,838,383
Lease and rental	473,507	508,249
Utilities	624,669	593,960
Insurance	365,141	320,349
Other expenses	2,263,020	2,522,793
Total operating expenses	66,994,803	59,457,424
Operating Income	10,548,429	6,637,525
Nonoperating Revenues (Expenses)		
Property taxes	888,326	833,305
Interest income	729,969	328,894
Noncapital grants and gifts	370,488	478,847
Gain (loss) on investments	70,585	(27,593)
Interest expense	(732,600)	(684,796)
Gain on sale of capital assets	55,367	5,988
Loss on other investments	(42,602)	(51,224)
Other	(78,484)	(49,301)
Total nonoperating revenues (expenses)	1,261,049	834,120
Excess of Revenues Over Expenses Before Capital Gifts	11,809,478	7,471,645
Gifts and Grants to Purchase Capital Assets	63,151	-
Increase in Net Position	11,872,629	7,471,645
Net Position, Beginning of Year	60,635,478	53,163,833
Net Position, End of Year	\$ 72,508,107	\$ 60,635,478

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

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from, and on behalf of, patients	\$ 74,999,133	\$ 66,653,196
Payments to suppliers and contractors	(18,376,205)	(16,117,255)
Payments to employees	(37,105,433)	(31,764,097)
Other payments, net	(6,949,526)	(6,192,322)
Net cash provided by operating activities	12,567,969	12,579,522
Noncapital Financing Activities		
Property taxes supporting operations	888,326	833,305
Contributions	370,488	478,847
Other nonoperating expense	(78,484)	(49,301)
Net cash provided by noncapital financing activities	1,180,330	1,262,851
Capital and Related Financing Activities		
Gifts to purchase capital assets	63,151	-
Principal paid on long-term debt	(900,000)	(880,000)
Proceeds from issuance of long-term debt	10,000,000	-
Interest paid on long-term debt	(665,260)	(687,467)
Purchase of capital assets	(14,452,554)	(4,273,989)
Proceeds from the sale of fixed assets	159,200	5,100
Net cash used in capital and related financing activities	(5,795,463)	(5,836,356)
Investing Activities		
Purchase of investments	(25,976,482)	(20,448,426)
Proceeds from disposition of investments	13,979,786	14,750,918
Investment income	800,554	301,301
Net cash used in investing activities	(11,196,142)	(5,396,207)
Increase (Decrease) in Cash and Cash Equivalents	(3,243,306)	2,609,810
Cash and Cash Equivalents, Beginning of Year	10,501,785	7,891,975
Cash and Cash Equivalents, End of Year	\$ 7,258,479	\$ 10,501,785

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

**Statements of Cash Flows (continued)
Years Ended December 31, 2018 and 2017**

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	\$ 5,294,411	\$ 7,611,420
Cash in noncurrent cash and investments		
Internally designated	1,613,889	2,547,241
Externally restricted by donors	350,179	343,124
Total cash and cash equivalents	\$ 7,258,479	\$ 10,501,785
Reconciliation of Net Operating Revenues to Net Cash and Cash Equivalents Provided by Operating Activities		
Operating income	\$ 10,548,429	\$ 6,637,525
Depreciation	3,643,655	3,662,398
Provision for uncollectible accounts	2,715,688	2,910,054
Changes in operating assets and liabilities		
Patient accounts receivable, net	(3,473,522)	(4,252,742)
Estimated amounts due from and to third-party payers	(446,333)	3,024,214
Accounts payable and accrued expenses	334,028	725,259
Other assets and liabilities	(753,976)	(127,186)
Net cash provided by operating activities	\$ 12,567,969	\$ 12,579,522
Supplemental Cash Flows Information		
Capital asset acquisition in accounts payable	\$ 3,012,381	\$ 967,404

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

Notes to Financial Statements

December 31, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017, 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 2018 and 2017. 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, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017

During 2018 and 2017, the Medical Center recognized Medicaid incentive payments of \$31,850 and \$379,400, respectively.

Revisions

Notes to the financial statements for the year ended December 31, 2017 have been revised to record cash accounts previously recorded as repurchase agreements in Note 7. The changes to Note 7 are as follows:

- Increased insured amounts by the FDIC by approximately \$175,000, increased uninsured amounts by approximately \$3,855,000, and increased total bank balances by approximately \$4,030,000.
- Repurchase agreements amounting to approximately \$3,933,000 were removed from the investment maturity schedule. The corresponding summary of carrying values investment line item decreased by approximately \$3,933,000 and the deposit line item increased by the same amount.
- Concentration of credit risks for U.S. Treasury securities increased from 51% to 57% as a result of the changes noted above.

Subsequent Events

Subsequent events have been evaluated through March 28, 2019, which is the date the financial statements were available to be issued.

Note 2: Change In Accounting Principle

In 2018, the Organization changed its method of accounting for capitalized interest by early adopting Governmental Accounting Standards Board No. 89 (GASB 89), *Accounting for Interest Cost Incurred before the End of a Construction Period*. Under this guidance, interest cost capitalization will no longer be allowed. This application was applied prospectively as allowed under GASB No. 89, and therefore had no impact on beginning net position at January 1, 2018. Interest cost incurred before the end of the construction period is to be recognized as an expense in the period in which the cost is incurred under GASB 89.

Note 3: 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.

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

Notes to Financial Statements

December 31, 2018 and 2017

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 4: 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 \$313,000 and \$147,000 in 2018 and 2017, 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 5: 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 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 59% and 54% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2018 and 2017, 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.

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

Notes to Financial Statements December 31, 2018 and 2017

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. HB 1293 was superseded by Senate Bill 17-267 which repealed the Hospital Provider Fee and created the Colorado Healthcare Accountability and Sustainability Enterprise (CHASE), with the following effect on the Medical Center's financial statements:

	2018	2017
Colorado Indigent Care Program - supplemental revenue	\$ 542,385	\$ 445,199
CHASE (2018)/provider fee supplemental revenue (2017), included in net patient service revenue	5,980,351	4,896,205
CHASE fee expense (2018)/provider fee expense (2017)	(1,833,305)	(1,596,973)
Effect of SB 17-267 (2018)/ HB 1293 (2017)	\$ 4,689,431	\$ 3,744,431

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

	2018		
	Gross Revenue	Contractual Adjustments and Uncollectible Accounts	Net Patient Service Revenue
Medicare	\$ 85,965,589	\$ 52,867,436	\$ 33,098,153
Medicaid	20,642,451	8,567,507	12,074,944
Other	44,190,408	13,160,205	31,030,203
	\$ 150,798,448	\$ 74,595,148	\$ 76,203,300

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

**Notes to Financial Statements
December 31, 2018 and 2017**

	2017		
	Gross Revenue	Contractual Adjustments and Uncollectible Accounts	Net Patient Service Revenue
Medicare	\$ 70,294,770	\$ 44,059,717	\$ 26,235,053
Medicaid	19,331,891	10,439,796	8,892,095
Other	41,597,114	11,752,592	29,844,522
	<u>\$ 131,223,775</u>	<u>\$ 66,252,105</u>	<u>\$ 64,971,670</u>

Note 6: 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, 2018 and 2017 consisted of:

	2018	2017
Medicare	\$ 13,438,134	\$ 10,922,546
Medicaid	2,988,545	3,738,612
Other third-party payers	8,784,582	9,154,135
Patients	1,567,191	1,282,393
	26,778,452	25,097,686
Less allowance for contractuels and uncollectible accounts	<u>15,738,119</u>	<u>14,815,187</u>
	<u>\$ 11,040,333</u>	<u>\$ 10,282,499</u>

Note 7: 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.

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

Notes to Financial Statements

December 31, 2018 and 2017

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. Pledged collateral is reported to, and reviewed by, the Medical Center.

At December 31, 2018 and 2017, \$6,600,596 and \$12,813,673, respectively, of the Organization's bank balances of \$7,981,318 and \$14,194,395, respectively, were exposed to custodial credit risk as follows:

	2018	2017
Insured (FDIC) or collateralized with securities held by the Organization	\$ 1,380,722	\$ 1,380,722
Uninsured and collateral held by the pledging financial institution's trust department or agent in other than the Organization's name	6,600,596	12,813,673
	<u>\$ 7,981,318</u>	<u>\$ 14,194,395</u>

Investments

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

At December 31, 2018 and 2017, the Organization had the following investments and maturities:

Type	Fair Value	2018	
		Maturities in Years	
		Less than 1	1-5
U.S. Treasury and Agency obligations	\$ 37,627,213	\$ 24,425,431	\$ 13,201,782
Money market funds	6,950,957	6,950,957	-
	<u>\$ 44,578,170</u>	<u>\$ 31,376,388</u>	<u>\$ 13,201,782</u>

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

Notes to Financial Statements

December 31, 2018 and 2017

Type	Fair Value	2017	
		Maturities in Years	
		Less than 1	1-5
U.S. Treasury and Agency obligations	\$ 17,736,193	\$ 12,378,363	\$ 5,357,830
Money market funds	13,137,133	13,137,133	-
	<u>\$ 30,873,326</u>	<u>\$ 25,515,496</u>	<u>\$ 5,357,830</u>

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, 2018 and 2017, 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.

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, 2018 and 2017, the Organization’s investment in U.S. Treasury securities constituted 84% and 57%, 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, 2018.

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

Notes to Financial Statements December 31, 2018 and 2017

Summary of Carrying Values

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

	2018	2017
Carrying value		
Deposits	\$ 8,621,125	\$ 13,627,710
Money market funds	6,950,957	13,137,133
Investments	37,627,213	17,736,193
Interest receivable	107,117	52,186
Cash on hand	1,715	1,515
	\$ 53,308,127	\$ 44,554,737

Included in the following statements of net position captions:

	2018	2017
Cash and cash equivalents	\$ 5,294,411	\$ 7,611,420
Certificates of deposit	864,360	2,627,440
Cash and investments internally designated by Board of Directors, current	31,483,505	25,515,496
Noncurrent cash and investments		
Certificates of deposit	500,000	500,000
Internally designated by Board of Directors	14,815,672	7,957,257
Externally restricted by donors	350,179	343,124
	\$ 53,308,127	\$ 44,554,737

Investment Income

Investment income for the years ended December 31 consisted of:

	2018	2017
Interest income/realized gains	\$ 729,969	\$ 328,894
Net change in fair value of investments - unrealized gains and losses	70,585	(27,593)
	\$ 800,554	\$ 301,301

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

Notes to Financial Statements

December 31, 2018 and 2017

Note 8: 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, 2018 and 2017:

- U.S. Treasury and Agency obligations of \$37,627,213 and \$17,736,193, 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)

Note 9: 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:

	2018 (Unaudited)	2017 (Unaudited)
Current assets	\$ 493,876	\$ 520,747
Property and other long-term assets, net	68,132	1,526
Total assets	562,008	522,273
Current liabilities	448,907	323,966
Members' equity	\$ 113,101	\$ 198,307
Net revenues	\$ 1,907,160	\$ 1,793,055
Net loss	\$ (85,205)	\$ (91,228)

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

Notes to Financial Statements December 31, 2018 and 2017

Note 10: Capital Assets

Capital assets activity for the years ended December 31, 2018 and 2017 were:

	2018				
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
Land	\$ 1,773,275	\$ -	\$ (106,438)	\$ -	\$ 1,666,837
Land improvements	4,371,669	-	(522,387)	2,183,719	6,033,001
Buildings and improvements	22,973,408	4,897	-	5,750	22,984,055
Equipment	31,814,016	1,316,935	(707,831)	20,559	32,443,679
Construction in progress	3,751,499	15,184,315	-	(2,210,028)	16,725,786
	<u>64,683,867</u>	<u>16,506,147</u>	<u>(1,336,656)</u>	<u>-</u>	<u>79,853,358</u>
Less accumulated depreciation					
Land improvements	2,974,254	326,152	(518,587)	-	2,781,819
Buildings and improvements	7,620,793	862,442	-	-	8,483,235
Equipment	20,429,391	2,455,063	(705,622)	-	22,178,832
	<u>31,024,438</u>	<u>3,643,657</u>	<u>(1,224,209)</u>	<u>-</u>	<u>33,443,886</u>
Capital assets, net	<u>\$ 33,659,429</u>	<u>\$ 12,862,490</u>	<u>\$ (112,447)</u>	<u>\$ -</u>	<u>\$ 46,409,472</u>
	2017				
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
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>

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

Notes to Financial Statements December 31, 2018 and 2017

Note 11: Long-term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended December 31, 2018 and 2017:

		2018				
		Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Long-term debt	Note payable to bank	\$ 22,475,000	\$ 10,000,000	\$ 900,000	\$ 31,575,000	\$ 1,355,000
		2017				
		Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Long-term debt	Note payable to bank	\$ 23,355,000	\$ -	\$ 880,000	\$ 22,475,000	\$ 900,000

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 borrowed an additional \$10,000,000, to fund the construction, improvement, and equipping of additional hospital facilities. These proceeds were 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.

The debt service requirements as of December 31, 2018, are as follows:

Year Ended December 31,	Total to be Paid	Principal	Interest
2019	\$ 2,289,620	\$ 1,355,000	\$ 934,620
2020	2,289,512	1,395,000	894,512
2021	2,288,220	1,435,000	853,220
2022	2,290,744	1,480,000	810,744
2023	2,286,936	1,520,000	766,936
2024 - 2028	11,437,568	8,305,000	3,132,568
2029 - 2033	11,438,392	9,610,000	1,828,392
2034 - 2036	6,862,020	6,475,000	387,020
	\$ 41,183,012	\$ 31,575,000	\$ 9,608,012

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

Notes to Financial Statements

December 31, 2018 and 2017

Note 12: 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 2018 and 2017 is summarized as follows:

	2018	2017
Balance, beginning of year	\$ 400,000	\$ 400,000
Current year claims incurred and changes in estimates for claims incurred in prior years	4,560,263	3,111,173
Claims and expenses paid	(4,460,263)	(3,111,173)
Balance, end of year	\$ 500,000	\$ 400,000

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 13: 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.

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

Notes to Financial Statements

December 31, 2018 and 2017

Note 14: Restricted Net Position

At December 31, 2018 and 2017, restricted expendable and nonexpendable net position were available for the following purposes:

	2018	2017
Restricted – Expendable		
Scholarships	\$ 29,349	\$ 36,189
Other	335,905	271,935
	\$ 365,254	\$ 308,124
Restricted – Nonexpendable		
Endowment restricted by donors for investment in perpetuity	\$ 40,000	\$ 40,000

Note 15: 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 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 10.27% and 6.41% for 2018 and 9.84% and 6.38% for 2017, respectively. Contributions actually made by plan members and the Medical Center aggregated \$2,854,033 and \$1,779,776 during 2018, and \$2,414,115 and \$1,566,400 during 2017.

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

Notes to Financial Statements

December 31, 2018 and 2017

Note 16: 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, 2018. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Future Land Development

In 2018, the Medical Center continued its main campus development initiatives from 2017. Relocation of an adjacent county road including the provision of utility services, two new employee parking lots and an internal road extension to provide a second highway access for the hospital were completed. The hospital expansion project to build an outpatient pavilion housing all provider based physician clinics as well as expanded rehabilitation and wellness services progressed throughout the year. While the completion schedule slipped from early February 2019 to the end of April 2019 the project budget is unaffected with the balance to finish, including retainage, at \$7.5M as of December 31, 2018. Development of several lots and the medical air transport hangar, crew quarters and taxiway also continued. One of the four lots was sold to a physician group while completion of the hangar and resulting execution of a long-term lease is expected in April 2019. Sale of a second lot is anticipated in 2019. Further plans include growth in the northern part of the district following the purchase of an additional one acre of land adjacent to the Rural Health Clinic in early 2019. The Medical Center is currently evaluating clinic expansion opportunities, costs and timelines.

Supplementary Information

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

**Combining Statement of Net Position
December 31, 2018**

Assets

	Medical Center	Foundation	Eliminations	Combined
Current Assets				
Cash and cash equivalents	\$ 4,744,322	\$ 550,089	\$ -	\$ 5,294,411
Certificates of Deposit	658,221	206,139	-	864,360
Patient accounts receivable, net of allowance of \$3,228,841	11,040,333	-	-	11,040,333
Inventories	2,145,982	-	-	2,145,982
Prepaid expenses and other	1,862,076	55,515	(55,075)	1,862,516
Cash and investments internally designated by Board of Directors, current	31,483,505	-	-	31,483,505
Total current assets	<u>51,934,439</u>	<u>811,743</u>	<u>(55,075)</u>	<u>52,691,107</u>
Noncurrent Cash and Investments				
Cash and investments internally designated by Board of Directors	14,815,672	-	-	14,815,672
Certificates of Deposit	500,000	-	-	500,000
Externally restricted by donors	133,875	216,304	-	350,179
Total noncurrent cash and investments	<u>15,449,547</u>	<u>216,304</u>	<u>-</u>	<u>15,665,851</u>
Investment in Joint Venture	<u>56,551</u>	<u>-</u>	<u>-</u>	<u>56,551</u>
Capital Assets, Net	<u>46,409,472</u>	<u>-</u>	<u>-</u>	<u>46,409,472</u>
Other Assets				
Lease receivable	469,116	-	-	469,116
Total assets	<u>\$ 114,319,125</u>	<u>\$ 1,028,047</u>	<u>\$ (55,075)</u>	<u>\$ 115,292,097</u>

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

Combining Statement of Net Position (continued)

December 31, 2018

Liabilities, Deferred Inflows of Resources and Net Position

	Medical Center	Foundation	Eliminations	Combined
Current Liabilities				
Accounts payable	\$ 4,192,699	\$ -	\$ (55,075)	\$ 4,137,624
Accrued compensation and paid time off	3,407,567	-	-	3,407,567
Current maturities of long-term debt	1,355,000	-	-	1,355,000
Estimated amounts due to third-party payers	2,683,224	-	-	2,683,224
Other current liabilities	426,568	-	-	426,568
Estimated self-insurance costs	500,000	-	-	500,000
Total current liabilities	12,565,058	-	(55,075)	12,509,983
Long-term Debt	30,220,000	-	-	30,220,000
Total liabilities	42,785,058	-	(55,075)	42,729,983
Deferred Inflows of Resources				
Lease revenue	54,007	-	-	54,007
Total liabilities and deferred inflows of resources	42,839,065	-	(55,075)	42,783,990
Net Position				
Net investment in capital assets	14,834,472	-	-	14,834,472
Restricted expendable				
Scholarships	-	29,349	-	29,349
Other	93,875	242,030	-	335,905
Restricted nonexpendable	40,000	-	-	40,000
Unrestricted	56,511,713	756,668	-	57,268,381
Total net position	71,480,060	1,028,047	-	72,508,107
Total liabilities, deferred inflows of resources and net position	\$ 114,319,125	\$ 1,028,047	\$ (55,075)	\$ 115,292,097

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

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

Assets

	Medical Center	Foundation	Eliminations	Combined
Current Assets				
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
Cash and 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>
Noncurrent Cash and Investments				
Cash and 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>
Investment in Joint Venture	<u>99,153</u>	<u>-</u>	<u>-</u>	<u>99,153</u>
Capital Assets, Net	<u>33,659,429</u>	<u>-</u>	<u>-</u>	<u>33,659,429</u>
Other Assets				
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**

	Medical Center	Foundation	Eliminations	Combined
Current Liabilities				
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
Long-term Debt	21,575,000	-	-	21,575,000
Total liabilities	31,722,026	298	(855)	31,721,469
Deferred Inflows of Resources				
Lease revenue	57,864	-	-	57,864
Total liabilities and deferred inflows of resources	31,779,890	298	(855)	31,779,333
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
Total liabilities, deferred inflows of resources and net position	\$ 91,460,050	\$ 955,616	\$ (855)	\$ 92,414,811

**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, 2018

	Medical Center	Foundation	Eliminations	Combined
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of \$2,715,688	\$ 76,203,300	\$ -	\$ -	\$ 76,203,300
Other operating revenue	1,339,932	-	-	1,339,932
Total operating revenues	<u>77,543,232</u>	<u>-</u>	<u>-</u>	<u>77,543,232</u>
Operating Expenses				
Salaries and wages	27,780,505	7,056	-	27,787,561
Employee benefits	9,782,081	-	-	9,782,081
Supplies	13,125,130	-	-	13,125,130
Purchased services	3,768,512	-	-	3,768,512
Professional fees	1,203,548	-	-	1,203,548
Depreciation	3,643,655	-	-	3,643,655
Provider fee expense	1,833,305	-	-	1,833,305
Repairs and maintenance	2,124,674	-	-	2,124,674
Lease and rental	473,507	-	-	473,507
Utilities	624,669	-	-	624,669
Insurance	365,141	-	-	365,141
Other expenses	2,250,529	12,491	-	2,263,020
Total operating expenses	<u>66,975,256</u>	<u>19,547</u>	<u>-</u>	<u>66,994,803</u>
Operating Income (Loss)	<u>10,567,976</u>	<u>(19,547)</u>	<u>-</u>	<u>10,548,429</u>
Nonoperating Revenues (Expenses)				
Property taxes	888,326	-	-	888,326
Interest income	724,619	5,350	-	729,969
Noncapital grants and gifts	255,146	128,289	(12,947)	370,488
Contributions to the Medical Center	-	(17,954)	17,954	-
Gain on investments	70,585	-	-	70,585
Interest expense	(732,600)	-	-	(732,600)
Gain on sale of capital assets	55,367	-	-	55,367
Loss on other investments	(42,602)	-	-	(42,602)
Other	-	(78,484)	-	(78,484)
Total nonoperating revenues (expenses)	<u>1,218,841</u>	<u>37,201</u>	<u>5,007</u>	<u>1,261,049</u>
Excess of Revenues Over Expenses				
Before Capital Gifts	11,786,817	17,654	5,007	11,809,478
Gifts and Grants to Purchase Capital Assets	<u>13,083</u>	<u>55,075</u>	<u>(5,007)</u>	<u>63,151</u>
Increase in Net Position	11,799,900	72,729	-	11,872,629
Net Position, Beginning of Year	<u>59,680,160</u>	<u>955,318</u>	<u>-</u>	<u>60,635,478</u>
Net Position, End of Year	<u>\$ 71,480,060</u>	<u>\$ 1,028,047</u>	<u>\$ -</u>	<u>\$ 72,508,107</u>

**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

	<u>Medical Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Operating Revenues				
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	<u>66,094,949</u>	<u>-</u>	<u>-</u>	<u>66,094,949</u>
Operating Expenses				
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	<u>59,439,189</u>	<u>18,235</u>	<u>-</u>	<u>59,457,424</u>
Operating Income (Loss)	<u>6,655,760</u>	<u>(18,235)</u>	<u>-</u>	<u>6,637,525</u>
Nonoperating Revenues (Expenses)				
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)	<u>719,612</u>	<u>52,401</u>	<u>62,107</u>	<u>834,120</u>
Excess of Revenues Over Expenses				
Before Capital Gifts	7,375,372	34,166	62,107	7,471,645
Gifts and Grants to Purchase Capital Assets	<u>62,107</u>	<u>-</u>	<u>(62,107)</u>	<u>-</u>
Increase in Net Position	7,437,479	34,166	-	7,471,645
Net Position, Beginning of Year	<u>52,242,681</u>	<u>921,152</u>	<u>-</u>	<u>53,163,833</u>
Net Position, End of Year	<u>\$ 59,680,160</u>	<u>\$ 955,318</u>	<u>\$ -</u>	<u>\$ 60,635,478</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, 2018**

	Actual	Budget	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 76,203,300	\$ 68,112,557	\$ 8,090,743
Other operating revenue	<u>1,339,932</u>	<u>1,047,120</u>	<u>292,812</u>
	<u>77,543,232</u>	<u>69,159,677</u>	<u>8,383,555</u>
Operating Expenses			
Salaries, wages and employee benefits	37,562,586	37,193,803	(368,783)
Other operating expenses	<u>29,412,670</u>	<u>28,760,350</u>	<u>(652,320)</u>
	<u>66,975,256</u>	<u>65,954,153</u>	<u>(1,021,103)</u>
Operating Income	10,567,976	3,205,524	7,362,452
Nonoperating Revenues (Expenses), Net	<u>1,218,841</u>	<u>946,893</u>	<u>271,948</u>
Excess of Revenues Over Expenses Before Capital Gifts	<u>\$ 11,786,817</u>	<u>\$ 4,152,417</u>	<u>\$ 7,634,400</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 2018.