

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

Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

**Salida Hospital District d/b/a Heart of the Rockies
Regional Medical Center
December 31, 2021 and 2020**

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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

Opinion

We have audited the 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, 2021 and 2020, 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.

In our opinion, the accompanying financial statements 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, 2021 and 2020, 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.

Basis for Opinion

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

Responsibilities of Management for the 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, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of

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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.

Supplementary 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, combining statements of revenues, expenses and changes in net position, and budgeted 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, combining statements of revenues, expenses and changes in net position, and budgeted and actual revenues and expenses have been subjected to the auditing procedures applied in the audits 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, combining statements of revenues, expenses and changes in net position, and budgeted and actual revenues and expenses are fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Colorado Springs, Colorado
April 1, 2022

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2021 and 2020

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, 2021 and 2020. It should be read in conjunction with the accompanying financial statements of the Medical Center. The information and financial data included in the management's discussion and analysis relate to either Heart of the Rockies Regional Medical Center or the Medical Center and its blended component unit, Salida Hospital Foundation d/b/a Heart of the Rockies Regional Medical Center Foundation (the Foundation), collectively referred to as the Organization.

Financial Highlights

Organization

- Cash and investments increased by \$13,305,798 in 2021 and increased by \$10,753,266 in 2020
- Net position increased in 2021 by \$17,040,594 and increased in 2020 by \$7,162,160

Heart of the Rockies Regional Medical Center (Medical Center)

- Cash and investments increased in 2021 by \$11,519,355, or 20%, and increased in 2020 by \$10,733,837, or 22%
- Net position increased in 2021 by \$15,254,669, or 17%, and increased in 2020 by \$7,145,122, or 9%
- Operating income increased in 2021 by \$7,777,694, or 351%, and decreased in 2020 by \$6,018,087, or 73%
- Total operating revenues increased in 2021 by \$18,720,447, or 21%, and increased in 2020 by \$4,285,156, or 5%
- Total operating expenses increased in 2021 by \$10,942,753, or 13%, and increased in 2020 by \$10,303,243, or 14%

Salida Hospital Foundation (Foundation)

- Cash and investments increased by \$1,786,443, or 170%, in 2021 and increased by \$19,429, or 2%, in 2020
- Net position increased by \$1,785,925, or 171%, in 2021, and increased by \$17,038, or 2%, in 2020

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

Management's Discussion and Analysis (Unaudited)

Years Ended December 31, 2021 and 2020

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 financial statements provide information about the activities of the Organization, including resources held by the Foundation but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

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, all liabilities, and deferred inflows of resources 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?".

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2021 and 2020

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 \$17,040,594, or 19%, over 2020, as shown in Table 1.

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 2021 are the increases in cash and cash equivalents; net patient accounts receivable; noncurrent cash and investments; current liabilities, and the decrease in investments internally designated by the Board of Directors; other current investments; other current assets; long term portion of Medicare accelerated payments and long-term debt.

Changes of note in 2020 are the increases in cash and cash equivalents; net patient accounts receivable; investments internally designated by the Board of Directors; other current assets; capital assets, net; current liabilities and Medicare accelerated payments, and the decrease in noncurrent cash and investments, and long-term debt.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2021 and 2020

	2021	2020	2019
Assets			
Cash and cash equivalents	\$ 32,355,820	\$ 20,544,795	\$ 5,591,111
Patient accounts receivable, net	15,775,287	13,365,030	12,903,307
Cash and investments internally designated by Board of Directors, current	16,874,380	27,200,193	21,655,158
Other current investments	130,722	723,656	706,617
Other current assets	5,168,028	5,771,993	4,718,370
Capital assets, net	58,420,140	59,608,856	54,675,557
Noncurrent cash and investments	24,026,006	11,612,486	21,374,978
Investment in joint venture	188,927	214,387	212,012
Other assets	368,591	402,099	435,608
Total assets	\$ 153,307,901	\$ 139,443,495	\$ 122,272,718
Liabilities and Deferred Inflows of Resources			
Current liabilities (including current maturities on long-term debt)	\$ 20,331,083	\$ 17,104,397	\$ 10,575,939
Long-term portion of Medicare accelerated payments	-	4,919,017	-
Long-term debt	25,910,000	27,390,000	28,825,000
Deferred inflows of resources - lease revenue	42,434	46,291	50,149
Total liabilities and deferred inflows of resources	46,283,517	49,459,705	39,451,088
Net Position			
Net investment in capital assets	30,454,312	29,180,094	22,509,072
Restricted			
Expendable	1,869,258	335,770	346,596
Nonexpendable	40,000	40,000	40,000
Unrestricted	74,660,814	60,427,926	59,925,962
Total net position	107,024,384	89,983,790	82,821,630
Total liabilities, deferred inflows of resources and net position	\$ 153,307,901	\$ 139,443,495	\$ 122,272,718

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

Management's Discussion and Analysis (Unaudited)

Years Ended December 31, 2021 and 2020

In 2021, the Medical Center continued its operational and financial recovery from the impacts of the COVID-19 pandemic and, despite seeing a spike in inpatient admissions and employee absences associated with the third quarter emergence of the Omicron variant, saw significant growth in the majority of hospital and physician clinic services. The long-standing approach to success of a balanced strategic and operational focus, emphasizing Service, People, Quality, Finance, Facilities, Growth, and Physician Relations still provided the foundation for managing and succeeding despite the ongoing national pandemic, and drove additional recognition of and emphasis on the People component with the award of 10% retention and recognition salary increases to all non-contracted employees.

Inpatient discharges increased by 5% and patient days by 2% in total, although intensive care patient days and average length of stay increased by 15% and 27%, respectively. Inpatient and outpatient surgeries increased by 15% and 45%, respectively. Emergency department, outpatient hospital and total clinic visits increased by 18%, 25% and 30%, respectively, over 2020. These changes, in conjunction with effective management of operating costs and productivity held the increase in operating expenses to 13% and contributed to the Medical Center's increase in cash and cash equivalents in 2021.

Cash and cash equivalents increased in 2020 primarily due to receipt of federal funds as a result of the COVID-19 pandemic. Medicare accelerated payments of approximately \$8.7 million require repayment while Provider Relief Funds under the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) of approximately \$6.5 million are considered grants subject to retention on meeting eligibility requirements outlined by the U.S. Department of Health and Human Services.

The increase in net patient accounts receivable of \$2,410,257, or 18%, in 2021 represents a decrease in net days outstanding from 58.1 to 57.0 and an overall 28% growth in services and associated gross revenue. Critical short staffing in patient registration throughout 2021 and the resulting need to redeploy accounts receivable management and staff, combined with unfilled billing and financial counseling positions, and the sudden loss of the Patient Financial Services Director in August impacted the Medical Center's performance. The department has been under strong interim directorship since September and operating in close collaboration with senior leadership.

The Medical Center realized a multiyear goal by receiving Joint Commission accreditation in September of 2020. It also received Rural Health Clinic certification for two of its family practice clinics, and a new clinic opened in a neighboring county according to the terms of an interdistrict agreement. With four rural health clinics in total, two outside its district, the Medical Center continued to increase its presence as a regional healthcare provider. Construction on the campus expansion which began in 2017 was completed at the beginning of 2020 with final remaining work on the laboratory expansion. Expansion of the Buena Vista Rural Health Clinic in the northern part of the district, planned at the end of 2019, was not completed as expected in 2020 due to significant delays in manufacturing, transport and workforce due to the COVID-19 pandemic. The new outpatient services wing ultimately opened at the end of January 2021 with associated remodeling of the existing clinic building continuing into early summer. In 2021 and 2020, capital assets net of depreciation were also impacted by the annual acquisition of new and replacement capital equipment, disposal of retired equipment and an increase in accumulated depreciation.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2021 and 2020

In 2021, other current assets decreased by \$603,965, or 10%, primarily due to the Medicare Cost Report settlement for 2021 resulting in a net payable of \$5,201,832 as opposed to the net receivable of \$932,509 for 2020.

The 29-month repayment requirement of the \$8,702,959 in Medicare accelerated payments requested and received in 2020 due to the COVID-19 pandemic was advanced beyond projections due to increased Medicare volumes and net revenue realized in 2021. The remaining \$4,151,961 is included in the increase in current liabilities and decrease in long-term portion of Medicare accelerated payments.

In 2021 the increase in current liabilities is also attributable to the \$3,700,000 Medicare Cost Report settlement payable. In 2020, the increase in current liabilities is attributable to \$3,783,942 in current accelerated Medicare payments and to \$4,030,620 in unearned CARES Act Provider Relief Funds received due to the COVID-19 pandemic.

Long-term debt decreased in 2021 and 2020 with debt service payments under the terms of the promissory note issued in 2016 to refund the 2006 Revenue Bonds.

In 2021, non-current cash and investments increased and other current investments decreased due to rebuilding of the Medical Center's laddered portfolio as investments matured and rates saw marginal increases. This corresponds with the decrease in current investments internally designated by the Board of Directors.

In 2020, non-current cash and investments decreased due to retraction of the Medical Center's laddered portfolio as investments matured and were held in primarily current money market funds due to the substantial reduction in investment rates. This corresponds with the increase in investments internally designated by the Board of Directors.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2021 and 2020

Operating Results and Changes in the Organization's Net Position

In 2021, the Organization's increase in net position was \$17,040,594, as shown in Table 2. This increase is made up of the following components:

Table 2: Operating Results and Changes in Net Position

	2021	2020	2019
Operating Revenues			
Net patient service revenue, net	\$ 100,973,240	\$ 84,147,479	\$ 81,499,086
Other operating revenue	5,159,800	3,265,114	1,628,351
Total operating revenues	<u>106,133,040</u>	<u>87,412,593</u>	<u>83,127,437</u>
Operating Expenses			
Salaries, wages and employee benefits	53,539,202	48,559,785	42,295,021
Purchased services and professional fees	8,172,796	6,700,653	6,312,021
Depreciation	5,767,482	4,991,568	4,271,417
Other operating expenses	28,677,776	24,967,122	22,042,250
Total operating expenses	<u>96,157,256</u>	<u>85,219,128</u>	<u>74,920,709</u>
Operating Income	<u>9,975,784</u>	<u>2,193,465</u>	<u>8,206,728</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,106,359	1,027,653	963,874
Interest income	329,002	742,237	1,127,841
Other nonoperating revenues and expenses, net	3,727,591	2,512,900	(130,382)
Net nonoperating revenues (expenses)	<u>5,162,952</u>	<u>4,282,790</u>	<u>1,961,333</u>
Gifts and Grants to Purchase Capital Assets	<u>1,901,858</u>	<u>685,905</u>	<u>145,462</u>
Increase in Net Position	<u><u>\$ 17,040,594</u></u>	<u><u>\$ 7,162,160</u></u>	<u><u>\$ 10,313,523</u></u>

Operating Income

The first component of the overall change in the Organization's net position for 2021 and 2020 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.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2021 and 2020

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. Despite ongoing and multiple challenges, the Organization experienced a strong recovery in 2021 after withstanding the unexpected impact of the COVID-19 pandemic which began in early 2020.

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 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 2020 by expanding its regional presence with the addition of two Rural Health Clinics in counties neighboring its district. The Medical Center's operating income for 2021 increased \$7,777,694, or 351%, and for 2020 decreased \$6,018,087, or 73%, respectively. The primary components of these changes are:

- In 2021 and 2020, an increase in net patient service revenue of \$16,825,761 or 20%, and \$2,648,393, or 3%, respectively
 - Gross patient revenues increased by \$46,703,984, or 28%, in 2021 and by \$4,851,431, or 3%, in 2020
 - Services had an aggregate price increase of 5% in 2021 and in 2020
 - Discharges increased by 5% in 2021 and decreased by 13% in 2020, although average length of stay decreased by 2% in 2021 and increased by 7% in 2020. Patient days increased by 2% in 2021 and decreased by 8% in 2020.
- Total outpatient and clinic visits increased in 2021 by 27% and in 2020 by 6% reflecting a strong recovery from the impact of the COVID-19 pandemic in all service lines
 - Outpatient surgeries increased by 45% in 2021 and by 21% in 2020
 - Emergency department visits increased by 18% in 2021 and decreased in 2020 by 14%
 - Rehabilitation services increased by 32% in 2021 and remained flat in 2020
 - Infusion department visits increased by 12% in 2021 and decreased by 15% in 2020. Increased provider availability combined with the reduced impact of the COVID-19 pandemic on this fragile patient population were factors.

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Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2021 and 2020

- Imaging services in total including CT, MRI, x-rays, fluoroscopy, mammography and nuclear medicine increased by 23% in 2021 and decreased by 3% in 2020
- Lab volume increased by 20% in 2021 and decreased by 4% in 2020
- Dialysis Clinic treatments increased by 2% in 2021 and decreased by 17% in 2020
- The Medical Center recorded an increase in deductions as a percentage of gross revenue of 3% in 2021 and 0% in 2020. 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 resulted in zero deductions in 2021 and deductions of \$96,546 in 2020 prior to being waived as of May 1 due to the COVID-19 pandemic
 - Both 2021 and 2020 deductions have been reduced by Medicaid supplemental payments in the amount of \$5,378,366 and \$5,401,951, respectively, under the Colorado Healthcare Accountability and Sustainability Enterprise Legislation adopted by the state of Colorado. In addition, the cost report settlements increased Medicare deductions by \$3.7 million, or 2% of gross revenue in 2021 and decreased Medicare deductions by \$2.3 million, or 1% of gross revenue, in 2020. This is primarily due to significant volume increases in 2021 and the impending reduction in per diem and cost to charge ratio based interim rates.
 - Charity and other deductions increased \$247,189 (although decreased from 1% to 0.9% of gross revenue) and decreased \$286,505 (from 1.2% to 1% of gross revenue) in 2020. Supplemental Colorado Indigent Care Program payments under the Medicaid Provider Fee legislation for 2021 in the amount of \$680,654 and for 2020 in the amount of \$568,312 exceeded write-offs by \$215,153 and \$137,596, respectively.
- Salaries, wages and benefits for the Organization's employees increased \$4,979,417, or 10%, in 2021 and \$6,264,764, or 15%, in 2020
 - Employee salaries and benefits increased in 2021 in correlation with an increase of 20.2 in full time equivalents (FTEs) in nursing and physician clinic services, and a net 7.4 in all other patient care and support services. The 2020 increase was in part due to an increase of 22.7 FTEs in nursing and physician clinic services, 5.8 FTEs in decreased ancillary/outreach/wellness services and 16.1 FTEs in administrative/support services.
 - The Medical Center's self-insured employee health plan realized increased expenses of \$1,146,804 in 2021, \$658,212 in 2020, and \$1,182,382 in 2019. This is representative of the impact of the COVID-19 pandemic on access to services in 2020 in addition to the claims volatility often experienced in small, self-insured plans as well as the increase in covered members. Employee contribution rates were not changed over these years in spite of the volatility.
 - The 2021 increase was also driven by a 10% house wide retention salary increase awarded in October in recognition of the contributions made by all staff in the face of the

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

Management's Discussion and Analysis (Unaudited)

Years Ended December 31, 2021 and 2020

COVID-19 pandemic response and challenges. Increases in both 2021 and 2020 were also attributable to the standard average salary increases of 3%, in addition to the Colorado Hospital Association survey data driven market adjustments for a significant number of employees. These increases contributed to success in the Medical Center's retention and recruitment efforts with a turnover rate of 13% in both 2021 and 2020, well below its current nationally based benchmark of 19.5%.

- Depreciation expense increased by \$775,914 to \$5,767,482, or 6% of total operating expenses, in 2021 and increased by \$720,151 to \$4,991,568, also 6% of total operating expenses, in 2020
 - 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 and includes the completion of the Buena Vista clinic expansion and remodel in 2021 and completed lab expansion in 2020.
 - Major moveable equipment accounts for about 35% of total depreciation expense. In 2021 the largest additions to major moveable equipment were several pieces of equipment to support the new neuro-spine service line, new diagnostic equipment for three of the four Rural Health Clinics, patient transport and supply cargo vans, and a heavy-duty snowplow truck. Both 2021 and 2020 also included new and updated surgical and diagnostic equipment as well as information technology upgrades.
- Purchased services and professional fees increased by \$1,472,143, or 22%, in 2021 and increased by \$388,632, or 6%, in 2020. Purchased services and professional fees are impacted by a number of operational outcomes.
 - In 2021, recruiting challenges escalated for multiple positions resulting in the use of extensive and inflated agency staffing costs in the Medical/Surgical Unit, Imaging, Cardiopulmonary and Internal Medicine Clinic. Additionally, an independent contractor filled the Health Information Management position for ten months due to recruiting delays driven by the COVID-19 pandemic. The volume increase in lab services drove a corresponding increase in use of third-party laboratories. Increased volumes and availability of Pain Management, Cardiology and Pulmonology providers was also a factor, in addition to the mid 2020 status change of an orthopedic provider and the need for a contracted provider to support the ENT clinic.
 - In 2020, an increase in professional fees resulted from an orthopedic provider's status change, an increase in availability of an independent contractor pain management physician, and an increase in cardiologist and pulmonologist availability under a professional services agreement, offset by the employment of an allergist in replacement of the previous independent contractor physician's services. Locum tenens coverage for general surgery call coverage prior to the fourth quarter employment of a third surgeon also contributed. In 2019, an increase in professional fees resulted from successful recruitment of an independent contractor pain management physician and to a full year of the independent contractor allergy physician's services. Locum tenens coverage for the oncology clinic due to a provider absence contributed significantly in addition to more limited needs for the orthopedic and general surgery clinics.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2021 and 2020

- Supplies expense increased by \$3,106,744, or 20%, in 2021 and by \$1,752,908, or 13%, in 2020
 - Departmental supplies, driven by volume and service line changes, increased by 24% in 2021 and 9% in 2020
 - Pharmaceuticals expense increased by 21% in 2021 and 5% in 2020 including volume variances in both the hospital and retail pharmacies, of 17% and 12%, respectively. Infusion services rebounded with a 12% volume increase in 2021 following the 2020 volume decrease of 15% and retail pharmacy volumes increased 56% over 2020 in the second full year of operation. The Urology and Allergy clinics also reflected volume driven expense increases in 2021. Internal automated auditing capabilities continued to enable purchasing at discounted 340B pricing despite market increases in many drugs.
 - Minor equipment expense decreased by 13% in 2021 and 2% in 2020 following completion of major facilities expansions in 2019 and early 2020

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 generating approximately 1% of gross financial support. Property taxes increased 8% and 7% in 2021 and 2020, respectively, according to Statutory Property Tax Revenue Limitations.

Investment income decreased 56% in 2021 and 34% in 2020 with changes in the balance of short and long-term investments in the portfolio and falling rates. The Medical Center also recorded an unrealized loss on investments of \$315,812 and \$53,757 in 2021 and 2020, respectively. Following a change in the managing partner ownership effective June 1, 2021, and a decrease in hospice census it realized a \$25,460 loss on its joint ventured home health and hospice company, following the gain of \$57,925 in 2020.

The Medical Center incurred interest expense in 2021 and 2020 on the long-term debt outstanding that was used to finance the current hospital facility.

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 2021 and 2020 of \$5,012,593 and \$4,103,514, respectively, were recognized. Grants from the Provider Relief Funds and Rural Health Clinic COVID-19 Testing and Mitigation programs through the COVID-19 CARES Act and the Colorado Division of Local Affairs (DOLA) due to the COVID-19 pandemic made up a majority of the amounts recognized. In both years, DOLA grants were received for equipment purchases for two rural health clinics, from the Women's Wellness Connection Program to support access to diagnostic services, and for other wellness initiatives.

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

Management's Discussion and Analysis (Unaudited)

Years Ended December 31, 2021 and 2020

The Foundation received restricted donations in the amount of \$1,581,753 in 2021 primarily attributable to a \$1.5 million estate bequest from previous retirees of community. In 2021 and 2020, the Foundation collected unrestricted donations in the amount of \$264,374 and \$45,350, respectively. Cancer walk donations and additional restricted contributions, including those for the Buena Vista Health Center expansion project, were transferred to the Medical Center in the amounts of \$16,609 and \$55,683, 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, 2021 and 2020, the Medical Center had \$58,420,140 and \$59,608,856, respectively, of net capital assets, as detailed in Note 9 to the financial statements. The net change year over year resulted from facility expansion and fixed equipment of \$6,225,029, land development of \$1,019,347 and major moveable equipment purchases of \$2,008,682, comprising primarily of \$1,359,351 for inpatient, ancillary and clinic services equipment, \$283,530 for IT and EHR technology, \$358,289 for facilities infrastructure and equipment, and \$7,512 for emergency preparedness equipment; offset by an increase in accumulated depreciation of \$5,427,343.

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 expended on its outpatient pavilion, laboratory and parking expansion which began mid-2017. The Medical Center had \$27,390,000 and \$28,825,000 outstanding in notes payable at December 31, 2021 and December 31, 2020, respectively. The Medical Center's formal debt issuances are subject to limitations imposed by state law.

Other Economic Factors

It is management's opinion that several factors contribute to the Medical Center's financial risks. These include but are not limited to timing of eventual cancellation of the COVID-19 public health emergency and status of sequestered federal payment reductions; physician and staff recruitment and retention challenges, lack of affordable housing and below average income trends within the Medical Center's service area; 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 Public Option payer system as well as reductions in reimbursement to fund a statewide reinsurance program to lower individual market premiums or to limit uninsured patient financial liability.

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

**Management's Discussion and Analysis (Unaudited)
Years Ended December 31, 2021 and 2020**

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, 2021 and 2020**

Assets

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 32,355,820	\$ 20,544,795
Certificates of deposit	130,722	723,656
Patient accounts receivable, net of allowance for uncollectible accounts; 2021 - \$4,207,033 and 2020 - \$3,032,379	15,775,287	13,365,030
Inventories	3,325,823	2,755,985
Prepaid expenses and other	1,842,205	2,083,499
Estimated amounts due from third-party payers	-	932,509
Cash and investments internally designated by Board of Directors, current	16,874,380	27,200,193
Total current assets	70,304,237	67,605,667
Noncurrent Cash and Investments		
Cash and investments internally designated by Board of Directors	21,088,366	10,736,717
Certificates of deposit	1,028,382	500,000
Externally restricted by donors	1,909,258	375,769
Total noncurrent cash and investments	24,026,006	11,612,486
Investment in Joint Venture	188,927	214,387
Capital Assets, Net	58,420,140	59,608,856
Other Assets		
Lease receivable	368,591	402,099
Total assets	\$ 153,307,901	\$ 139,443,495

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

Statements of Net Position (continued)

December 31, 2021 and 2020

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

	2021	2020
Current Liabilities		
Accounts payable	\$ 3,508,748	\$ 3,261,774
Accrued compensation and paid time off	3,715,851	2,976,863
Current maturities of long-term debt	1,480,000	1,435,000
Estimated amounts due to third-party payers	5,201,832	-
Other current liabilities	720,191	714,198
Estimated self-insurance costs	1,150,000	900,000
Unearned revenue	402,500	4,032,620
Current portion of Medicare accelerated payments	4,151,961	3,783,942
	<u>20,331,083</u>	<u>17,104,397</u>
Other Liabilities		
Long-term portion of Medicare accelerated payments	-	4,919,017
Long-term debt	25,910,000	27,390,000
	<u>25,910,000</u>	<u>32,309,017</u>
Total liabilities	<u>46,241,083</u>	<u>49,413,414</u>
Deferred Inflows of Resources		
Lease revenue	42,434	46,291
	<u>42,434</u>	<u>46,291</u>
Total liabilities and deferred inflows of resources	<u>46,283,517</u>	<u>49,459,705</u>
Net Position		
Net investment in capital assets	30,454,312	29,180,094
Restricted - expendable for		
Scholarships	12,224	14,746
Capital acquisitions	1,500,000	-
Other	357,034	321,024
Restricted nonexpendable	40,000	40,000
Unrestricted	74,660,814	60,427,926
	<u>107,024,384</u>	<u>89,983,790</u>
Total net position	<u>107,024,384</u>	<u>89,983,790</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 153,307,901</u>	<u>\$ 139,443,495</u>

**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, 2021 and 2020**

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 - \$3,280,588 and 2020 - \$2,408,658	\$ 100,973,240	\$ 84,147,479
Other operating revenue	5,159,800	3,265,114
Total operating revenues	106,133,040	87,412,593
Operating Expenses		
Salaries and wages	38,705,031	35,377,213
Employee benefits	14,834,171	13,182,572
Supplies	18,832,308	15,725,564
Purchased services	4,446,962	3,974,890
Professional fees	3,725,834	2,725,763
Depreciation	5,767,482	4,991,568
Provider fee expense	2,480,519	2,346,052
Repairs and maintenance	3,067,173	3,015,703
Lease and rental	145,686	229,231
Utilities	849,381	752,949
Insurance	456,325	410,884
Other expenses	2,846,384	2,486,739
Total operating expenses	96,157,256	85,219,128
Operating Income	9,975,784	2,193,465
Nonoperating Revenues (Expenses)		
Property taxes	1,106,359	1,027,653
Interest income	329,002	742,237
Noncapital grants and gifts	4,940,253	3,417,609
Loss on investments	(315,812)	(53,757)
Interest expense	(842,601)	(884,189)
Gain on sale of capital assets	5,337	13,858
Gain (loss) on investment in equity investee	(25,460)	57,925
Other	(34,126)	(38,546)
Total nonoperating revenues (expenses)	5,162,952	4,282,790
Excess of Revenues Over Expenses Before Capital Gifts	15,138,736	6,476,255
Gifts and Grants to Purchase Capital Assets	1,901,858	685,905
Increase in Net Position	17,040,594	7,162,160
Net Position, Beginning of Year	89,983,790	82,821,630
Net Position, End of Year	\$ 107,024,384	\$ 89,983,790

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

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Receipts from, and on behalf of, patients	\$ 100,179,781	\$ 91,925,962
Payments to suppliers and contractors	(26,300,034)	(23,001,007)
Payments to employees	(52,800,214)	(49,437,614)
Other payments, net	(4,181,566)	(6,060,102)
Net cash provided by operating activities	16,897,967	13,427,239
Cash Flows from Noncapital Financing Activities		
Property taxes supporting operations	1,106,359	1,027,653
Noncapital grants and gifts	1,093,573	7,450,229
Other nonoperating expense	(34,126)	(38,546)
Net cash provided by noncapital financing activities	2,165,806	8,439,336
Cash Flows from Capital and Related Financing Activities		
Gifts to purchase capital assets	1,901,858	685,905
Principal paid on long-term debt	(1,435,000)	(1,395,000)
Interest paid on long-term debt	(853,220)	(894,512)
Purchase of capital assets	(5,609,246)	(10,267,590)
Proceeds from the sale of fixed assets	7,883	13,858
Net cash used in capital and related financing activities	(5,987,725)	(11,857,339)
Cash Flows from Investing Activities		
Purchase of investments	(34,807,481)	(26,747,284)
Proceeds from disposition of investments	34,771,888	31,394,063
Investment income	448,065	813,750
Net cash provided by investing activities	412,472	5,460,529
Increase in Cash and Cash Equivalents	13,488,520	15,469,765
Cash and Cash Equivalents, Beginning of Year	22,127,429	6,657,664
Cash and Cash Equivalents, End of Year	\$ 35,615,949	\$ 22,127,429

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

**Statements of Cash Flows (continued)
Years Ended December 31, 2021 and 2020**

	2021	2020
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 32,355,820	\$ 20,544,795
Cash in noncurrent cash and investments		
Internally designated	1,350,871	1,206,865
Externally restricted by donors	1,909,258	375,769
Total cash and cash equivalents	\$ 35,615,949	\$ 22,127,429
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 9,975,784	\$ 2,193,465
Depreciation	5,767,482	4,991,568
Provision for uncollectible accounts	3,280,588	2,408,658
Changes in operating assets and liabilities		
Patient accounts receivable, net	(5,657,390)	(2,625,184)
Estimated amounts due from and to third-party payers	6,134,341	(707,950)
Accounts payable and accrued expenses	2,013,896	(1,198,388)
Other assets and liabilities	(4,616,734)	8,365,070
Net cash provided by operating activities	\$ 16,897,967	\$ 13,427,239
Supplemental Cash Flows Information		
Capital asset acquisition in accounts payable	\$ 575,828	\$ 1,603,762

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

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020

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. The Organization does not consider uninvested cash held in investment accounts as cash or cash equivalents. At December 31, 2021 and 2020, cash equivalents consisted primarily of repurchase agreements secured by ownership in *Public Deposit Protection Act* qualifying securities.

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 fair value. 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, 2021 and 2020

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. 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

Capital Asset Impairment

The Medical Center evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Compensated Absences

Medical Center policies permit all full-time and regular part-time employees who are regularly scheduled to work at least 24 hours per week or 48 hours per pay period to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash.

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.

Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statements of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Risk Management

The Organization 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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Notes to Financial Statements

December 31, 2021 and 2020

The Medical Center is self-insured for a portion of its exposure to employee health claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Unearned Revenue

The Medical Center received distributions from the CARES Act Provider Relief Fund and Rural Health Clinic COVID-19 Testing and Mitigation Programs. These distributions are not subject to repayment, provided the Medical Center is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services. Unearned revenue represents the balance of the economic support that has been received but not yet used for its intended purpose.

Deferred Inflows of Resources

The Medical Center reports an acquisition of net position that is applicable to a future reporting period 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 on its statements of net position.

- 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 is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Organization, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings
- Restricted nonexpendable net position consists of 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 is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position

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

Notes to Financial Statements

December 31, 2021 and 2020

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 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.

Property Taxes

The Medical Center received approximately 1% of its gross financial support from property taxes in 2021 and 2020. These funds were used to support operations. Taxes are recorded as revenue in the year they are assessed.

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.

Subsequent Events

Subsequent events have been evaluated through April 1, 2022, which is the date the financial statements were available to be issued.

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

Notes to Financial Statements

December 31, 2021 and 2020

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 \$350,000 in 2021 and 2020. 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 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. Reimbursements for Medicaid inpatient services are generally paid at prospectively determined rates per discharge, per occasion of service or per covered member similar to Medicare. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Medical Center is reimbursed for cost-reimbursable services at tentative rates, with final settlement determined after submission of annual cost reports by the Medical Center. Reimbursements for Medicaid outpatient services are paid prospectively under the Enhanced Ambulatory Patient Grouping (EAPG) System, to a patient classification system that is based on clinical, diagnostics, and other factors.

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

Notes to Financial Statements December 31, 2021 and 2020

Approximately 53% and 56% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2021 and 2020, 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. 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:

	2021	2020
Colorado Indigent Care Program - supplemental revenue	\$ 680,654	\$ 568,312
CHASE supplemental payments included in patient service revenue	5,378,366	5,401,951
CHASE fee expense	(2,480,519)	(2,346,052)
Effect of SB 17-267	\$ 3,578,501	\$ 3,624,211

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

	2021		
	Gross Revenue	Contractual Adjustments and Uncollectible Accounts	Net Patient Service Revenue
Medicare	\$ 112,703,065	\$ 71,694,366	\$ 41,008,699
Medicaid	32,367,560	19,899,921	12,467,639
Other	69,557,974	22,061,072	47,496,902
Total	\$ 214,628,599	\$ 113,655,359	\$ 100,973,240

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

**Notes to Financial Statements
December 31, 2021 and 2020**

	2020		
	Gross Revenue	Contractual Adjustments and Uncollectible Accounts	Net Patient Service Revenue
Medicare	\$ 91,593,234	\$ 54,477,676	\$ 37,115,558
Medicaid	23,485,696	13,613,811	9,871,885
Other	52,845,685	15,685,649	37,160,036
Total	\$ 167,924,615	\$ 83,777,136	\$ 84,147,479

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, 2021 and 2020 consisted of:

	2021	2020
Medicare	\$ 15,790,228	\$ 13,569,278
Medicaid	3,473,515	2,544,031
Other third-party payers	13,341,013	10,241,164
Patients	2,295,430	1,643,488
	34,900,186	27,997,961
Less allowance for contractals and uncollectible accounts	19,124,899	14,632,931
Total	\$ 15,775,287	\$ 13,365,030

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.

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

Notes to Financial Statements December 31, 2021 and 2020

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, 2021 and 2020, \$37,670,107 and \$24,142,571, respectively, of the Organization's bank balances of \$39,300,829 and \$25,715,391, respectively, were exposed to custodial credit risk as follows:

	2021	2020
Uninsured and uncollateralized	\$ 1,770,000	\$ 803,125
Insured (FDIC) or collateralized with securities held by the Organization	1,630,722	1,572,820
Uninsured and collateral held by the pledging financial institution's trust department or agent in other than the Organization's name	35,900,107	23,339,446
	<u>\$ 39,300,829</u>	<u>\$ 25,715,391</u>

Investments

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

At December 31, 2021 and 2020, the Organization had the following investments and maturities:

Type	Fair Value	2021	
		Maturities in Years	
		Less than 1	1-5
U.S. Treasury and Agency obligations	\$ 34,066,352	\$ 14,328,857	\$ 19,737,495
Money market funds	483,022	483,022	-
	<u>\$ 34,549,374</u>	<u>\$ 14,811,879</u>	<u>\$ 19,737,495</u>

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

Notes to Financial Statements

December 31, 2021 and 2020

Type	Fair Value	2020	
		Maturities in Years	
		Less than 1	1-5
U.S. Treasury and Agency obligations	\$ 24,169,974	\$ 14,640,122	\$ 9,529,852
Money market funds	<u>11,431,186</u>	<u>11,431,186</u>	<u>-</u>
	<u>\$ 35,601,160</u>	<u>\$ 26,071,308</u>	<u>\$ 9,529,852</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, 2021 and 2020, 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, 2021 and 2020, the Organization’s investment in U.S. Treasury securities and agency obligations constituted 99% and 68%, 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, 2021.

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

**Notes to Financial Statements
December 31, 2021 and 2020**

Summary of Carrying Values

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

	<u>2021</u>	<u>2020</u>
Carrying value		
Deposits	\$ 38,792,203	\$ 24,401,689
Money market funds	483,022	11,431,186
Investments	34,066,352	24,169,974
Interest receivable	42,500	75,760
Cash on hand	<u>2,851</u>	<u>2,521</u>
Total	<u>\$ 73,386,928</u>	<u>\$ 60,081,130</u>

Included in the following statements of net position captions:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 32,355,820	\$ 20,544,795
Certificates of deposit	130,722	723,656
Cash and investments internally designated by Board of Directors, current	16,874,380	27,200,193
Noncurrent cash and investments		
Certificates of deposit	1,028,382	500,000
Internally designated by Board of Directors	21,088,366	10,736,717
Externally restricted by donors	<u>1,909,258</u>	<u>375,769</u>
Total	<u>\$ 73,386,928</u>	<u>\$ 60,081,130</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	<u>2021</u>	<u>2020</u>
Interest income/realized gains	\$ 329,002	\$ 742,237
Net change in fair value of investments - unrealized gains and losses	<u>(315,812)</u>	<u>(53,757)</u>
Total	<u>\$ 13,190</u>	<u>\$ 688,480</u>

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

Notes to Financial Statements

December 31, 2021 and 2020

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, 2021 and 2020:

- Money market funds of \$483,022 and \$11,431,186, respectively, are valued using quoted market prices (Level 1 inputs)
- U.S. Treasury and Agency obligations of \$34,066,352 and \$24,169,974, 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 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:

	2021 (Unaudited)	2020 (Unaudited)
Current assets	\$ 1,549,043	\$ 771,962
Property and other long-term assets, net	85,794	46,514
Total assets	1,634,837	818,476
Current liabilities	1,237,575	389,701
Long-term liabilities	19,408	-
Total liabilities	1,256,983	389,701
Members' equity	\$ 377,854	\$ 428,775
Net revenues	\$ 1,344,354	\$ 2,686,688
Net income (loss)	\$ (50,921)	\$ 115,850

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

Notes to Financial Statements December 31, 2021 and 2020

Note 9: Capital Assets

Capital assets activity for the years ended December 31, 2021 and 2020 were:

	2021				
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
Land	\$ 2,197,668	\$ -	\$ -	\$ 61,825	\$ 2,259,493
Land improvements	8,454,665	9,737	-	1,019,347	9,483,749
Buildings and improvements	36,875,473	10,300	-	3,740,259	40,626,032
Equipment	48,066,743	2,054,415	(342,685)	2,798,720	52,577,193
Construction in progress	5,935,041	2,506,860	-	(7,620,151)	821,750
	<u>101,529,590</u>	<u>4,581,312</u>	<u>(342,685)</u>	<u>-</u>	<u>105,768,217</u>
Less accumulated depreciation					
Land improvements	3,744,881	624,639	-	-	4,369,520
Buildings and improvements	10,985,506	1,564,113	-	-	12,549,619
Equipment	27,190,347	3,578,730	(340,139)	-	30,428,938
	<u>41,920,734</u>	<u>5,767,482</u>	<u>(340,139)</u>	<u>-</u>	<u>47,348,077</u>
Capital assets, net	<u>\$ 59,608,856</u>	<u>\$ (1,186,170)</u>	<u>\$ (2,546)</u>	<u>\$ -</u>	<u>\$ 58,420,140</u>
	2020				
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
Land	\$ 2,137,711	\$ -	\$ -	\$ 59,957	\$ 2,197,668
Land improvements	7,620,236	10,082	-	824,347	8,454,665
Buildings and improvements	35,573,331	-	-	1,302,142	36,875,473
Equipment	43,926,398	2,785,562	(332,185)	1,686,968	48,066,743
Construction in progress	2,679,232	7,129,223	-	(3,873,414)	5,935,041
	<u>91,936,908</u>	<u>9,924,867</u>	<u>(332,185)</u>	<u>-</u>	<u>101,529,590</u>
Less accumulated depreciation					
Land improvements	3,203,732	541,149	-	-	3,744,881
Buildings and improvements	9,624,327	1,361,179	-	-	10,985,506
Equipment	24,433,292	3,089,240	(332,185)	-	27,190,347
	<u>37,261,351</u>	<u>4,991,568</u>	<u>(332,185)</u>	<u>-</u>	<u>41,920,734</u>
Capital assets, net	<u>\$ 54,675,557</u>	<u>\$ 4,933,299</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,608,856</u>

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

Notes to Financial Statements December 31, 2021 and 2020

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, 2021 and 2020:

	2021				Amounts Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Long-term debt					
Note from direct borrowing	\$ 28,825,000	\$ -	\$ 1,435,000	\$ 27,390,000	\$ 1,480,000
Other long-term liabilities					
Medicare accelerated payments	8,702,959	-	4,550,998	4,151,961	4,151,961
Total long-term liabilities	<u>\$ 37,527,959</u>	<u>\$ -</u>	<u>\$ 5,985,998</u>	<u>\$ 31,541,961</u>	<u>\$ 5,631,961</u>
	2020				Amounts Due Within One Year
	Beginning Balance	Additions	Reductions	Ending Balance	
Long-term debt					
Note from direct borrowing	\$ 30,220,000	\$ -	\$ 1,395,000	\$ 28,825,000	\$ 1,435,000
Other long-term liabilities					
Medicare accelerated payments	-	8,702,959	-	8,702,959	3,783,942
Total long-term liabilities	<u>\$ 30,220,000</u>	<u>\$ 8,702,959</u>	<u>\$ 1,395,000</u>	<u>\$ 37,527,959</u>	<u>\$ 5,218,942</u>

Note from Direct Borrowing

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 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 Organization's outstanding note from direct borrowing of \$27,390,000 is secured by the Medical Center's net revenues. This outstanding note contains a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due as listed in the events of default in the agreement.

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

Notes to Financial Statements

December 31, 2021 and 2020

The debt service requirements as of December 31, 2021, are as follows:

Year Ended December 31,	Total to be Paid	Principal	Interest
2022	\$ 2,290,744	\$ 1,480,000	\$ 810,744
2023	2,286,936	1,520,000	766,936
2024	2,286,944	1,565,000	721,944
2025	2,285,620	1,610,000	675,620
2026	2,287,964	1,660,000	627,964
2027 - 2031	11,438,032	9,065,000	2,373,032
2032 - 2036	<u>11,439,420</u>	<u>10,490,000</u>	<u>949,420</u>
Total	<u>\$ 34,315,660</u>	<u>\$ 27,390,000</u>	<u>\$ 6,925,660</u>

Medicare Accelerated and Advanced Payment Program

During the year ended December 31, 2020, the Hospital requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump-sum or interest will begin to accrue subsequent to the 29 months at a rate of 4%.

During the year ended December 31, 2020, the Hospital received approximately \$8,703,000 from these accelerated Medicare payment requests. During the years ended December 31, 2021 and 2020, Medicare has applied approximately \$4,551,000 and \$0, respectively, from these accelerated Medicare payment requests against filed claims. As of December 31, 2021, \$4,151,961 and \$0, respectively, of accelerated Medicare payment requests are recorded as current liabilities under the caption current portion of Medicare accelerated payments and noncurrent liabilities under the caption long-term portion of Medicare accelerated payments in the accompanying statements of net position. As of December 31, 2020, \$3,783,942 and \$4,919,017, respectively, of accelerated Medicare payment requests are recorded as current liabilities under the current portion of Medicare accelerated payments and noncurrent liabilities under the caption long-term portion of Medicare accelerated payments in the accompanying statements of net position.

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

Notes to Financial Statements

December 31, 2021 and 2020

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 2021 and 2020 is summarized as follows:

	2021	2020
Balance, beginning of year	\$ 900,000	\$ 900,000
Current year claims incurred and changes in estimates for claims incurred in prior years	7,176,185	6,098,432
Claims and expenses paid	(6,926,185)	(6,098,432)
Balance, end of year	\$ 1,150,000	\$ 900,000

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 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.

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

Notes to Financial Statements

December 31, 2021 and 2020

Note 13: Restricted Net Position

At December 31, 2021 and 2020, restricted expendable and nonexpendable net position were available for the following purposes:

	2021	2020
Restricted – Expendable For		
Scholarships	\$ 12,224	\$ 14,746
Capital acquisitions	1,500,000	-
Other	357,034	321,024
	\$ 1,869,258	\$ 335,770
Restricted – Nonexpendable		
Endowment restricted by donors for investment in perpetuity	\$ 40,000	\$ 40,000

Note 14: Employee Retirement Plans

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 plans. Benefit provisions are contained in the plan documents and, where established, can be amended by action of the Medical Center's Board of Directors and management. Employee contributions of pre-tax 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 9.95% and 6.04% for 2021 and 9.77% and 6.17% for 2020, respectively. Contributions actually made by plan members and the Medical Center aggregated \$3,849,965 and \$2,336,672 during 2021, and \$3,455,730 and \$2,171,435 during 2020, respectively.

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

Notes to Financial Statements

December 31, 2021 and 2020

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. 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 years ended December 31, 2021 or December 31, 2020. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 16: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

During 2021, many of these policies were eased although some restrictions were re-introduced due to variable rates of the COVID-19 Delta and Omicron variant cases. Current restrictions still affecting the Medical Center during this period include pre-non-emergent surgery testing, use of PPE and social distancing, visitor screening and visitation limitations. The impact on throughput and volumes was not impacted, however, and the Medical Center experienced significant growth in all service lines as compared to 2020.

The duration of the COVID-19 Public Health Emergency and its potential for adverse effect on the Medical Center's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Medical Center's control and ability to forecast.

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

Notes to Financial Statements

December 31, 2021 and 2020

Provider Relief Fund and Rural Health Clinic COVID-19 Testing and Mitigation Programs

During the years ended December 31, 2021 and 2020, the Medical Center received \$400,000 and \$6,490,686, respectively, of distributions from the CARES Act Provider Relief Fund and the Rural Health Clinic COVID-19 Testing and Mitigation Programs. These distributions from the Provider Relief Fund and Rural Health Clinic COVID-19 Testing and Mitigation Programs are not subject to repayment, provided the Medical Center is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The Medical Center is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as eligibility requirements have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and Rural Health Clinic COVID-19 Testing and Mitigation Programs and the effect of the pandemic on the Medical Center's operating revenues and expenses through year-end, the Medical Center recognized \$4,030,120 and \$2,460,566, respectively, during the years ended December 31, 2021 and 2020 related to the Provider Relief Fund and Rural Health Clinic COVID-19 Testing and Mitigation Programs. These payments are recorded as nonoperating revenue in noncapital grants and gifts in our statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund and Rural Health Clinic COVID-19 Testing and Mitigation Program distributions are recorded as part of unearned revenue in the accompanying statements of net position.

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the CARES Act in March 2020. The Medical Center has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) and the Frequently Asked Questions (FAQs) issued by HHS subsequent to December 31, 2021 in accordance with GASB codification Section 2250 and have concluded as follows:

- January 27, 2022 FAQs - recognized

The Medical Center has recognized revenue from the Provider Relief Fund and Rural Health Clinic COVID-19 Testing and Mitigation Programs based on guidance issued by HHS as of December 31, 2021 and any clarifications issued by HHS subsequent to year-end, including any referenced above as recognized subsequent events. The Medical Center will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and Rural Health Clinic COVID-19 Testing and Mitigation Programs and the effect of the pandemic on the Medical Center's revenues and expenses. The terms and conditions governing the Provider Relief Fund and Rural Health Clinic COVID-19 Testing and Mitigation Programs are complex and subject to interpretation and change. If the Medical Center is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Medical Center's Provider Relief Fund and Rural Health Clinic COVID-19 Testing and Mitigation Programs' reporting could differ. These payments are subject to government oversight, including potential audits.

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

**Notes to Financial Statements
December 31, 2021 and 2020**

Medicare Accelerated and Advance Payment Program

The Medical Center requested accelerated Medicare payments as provided for in the CARES Act as discussed in Note 10.

Supplementary Information

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

**Combining Statement of Net Position
December 31, 2021**

Assets

	<u>Medical Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Current Assets				
Cash and cash equivalents	\$ 31,646,566	\$ 709,254	\$ -	\$ 32,355,820
Certificates of deposit	-	130,722	-	130,722
Patient accounts receivable, net of allowance of \$4,207,033	15,775,287	-	-	15,775,287
Inventories	3,325,823	-	-	3,325,823
Prepaid expenses and other	1,841,700	505	-	1,842,205
Cash and investments internally designated by Board of Directors, current	<u>16,874,380</u>	<u>-</u>	<u>-</u>	<u>16,874,380</u>
Total current assets	<u>69,463,756</u>	<u>840,481</u>	<u>-</u>	<u>70,304,237</u>
Noncurrent Cash and Investments				
Cash and investments internally designated by Board of Directors	20,871,806	216,560	-	21,088,366
Certificates of deposit	1,028,382	-	-	1,028,382
Externally restricted by donors	<u>130,700</u>	<u>1,778,558</u>	<u>-</u>	<u>1,909,258</u>
Total noncurrent cash and investments	<u>22,030,888</u>	<u>1,995,118</u>	<u>-</u>	<u>24,026,006</u>
Investment in Joint Venture	<u>188,927</u>	<u>-</u>	<u>-</u>	<u>188,927</u>
Capital Assets, Net	<u>58,420,140</u>	<u>-</u>	<u>-</u>	<u>58,420,140</u>
Other Assets				
Lease receivable	<u>368,591</u>	<u>-</u>	<u>-</u>	<u>368,591</u>
Total assets	<u>\$ 150,472,302</u>	<u>\$ 2,835,599</u>	<u>\$ -</u>	<u>\$ 153,307,901</u>

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

Combining Statement of Net Position (continued)

December 31, 2021

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

	<u>Medical Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Current Liabilities				
Accounts payable	\$ 3,508,748	\$ -	\$ -	\$ 3,508,748
Accrued compensation and paid time off	3,715,851	-	-	3,715,851
Current maturities of long-term debt	1,480,000	-	-	1,480,000
Estimated amounts due to third-party payers	5,201,832	-	-	5,201,832
Other current liabilities	720,191	-	-	720,191
Estimated self-insurance costs	1,150,000	-	-	1,150,000
Unearned revenue	400,000	2,500	-	402,500
Current portion of Medicare accelerated payments	4,151,961	-	-	4,151,961
	<u>20,328,583</u>	<u>2,500</u>	<u>-</u>	<u>20,331,083</u>
Total current liabilities				
	<u>20,328,583</u>	<u>2,500</u>	<u>-</u>	<u>20,331,083</u>
Other Liabilities				
Long-term debt	25,910,000	-	-	25,910,000
	<u>25,910,000</u>	<u>-</u>	<u>-</u>	<u>25,910,000</u>
Total other liabilities				
	<u>25,910,000</u>	<u>-</u>	<u>-</u>	<u>25,910,000</u>
Total liabilities	<u>46,238,583</u>	<u>2,500</u>	<u>-</u>	<u>46,241,083</u>
Deferred Inflows of Resources				
Lease revenue	42,434	-	-	42,434
	<u>42,434</u>	<u>-</u>	<u>-</u>	<u>42,434</u>
Total liabilities and deferred inflows of resources	<u>46,281,017</u>	<u>2,500</u>	<u>-</u>	<u>46,283,517</u>
Net Position				
Net investment in capital assets	30,454,312	-	-	30,454,312
Restricted - expendable for				
Scholarships	-	12,224	-	12,224
Capital acquisitions	-	1,500,000	-	1,500,000
Other	90,700	266,334	-	357,034
Restricted nonexpendable	40,000	-	-	40,000
Unrestricted	73,606,273	1,054,541	-	74,660,814
	<u>104,191,285</u>	<u>2,833,099</u>	<u>-</u>	<u>107,024,384</u>
Total net position				
	<u>104,191,285</u>	<u>2,833,099</u>	<u>-</u>	<u>107,024,384</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 150,472,302</u>	<u>\$ 2,835,599</u>	<u>\$ -</u>	<u>\$ 153,307,901</u>

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

**Combining Statement of Net Position
December 31, 2020**

Assets

	<u>Medical Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Current Assets				
Cash and cash equivalents	\$ 19,946,105	\$ 598,690	\$ -	\$ 20,544,795
Certificates of deposit	517,039	206,617	-	723,656
Patient accounts receivable, net of allowance of \$3,032,379	13,365,030	-	-	13,365,030
Inventories	2,755,985	-	-	2,755,985
Prepaid expenses and other	2,082,431	2,056	(988)	2,083,499
Estimated amounts due from third-party payers	932,509	-	-	932,509
Cash and investments internally designated by Board of Directors, current	<u>27,200,193</u>	<u>-</u>	<u>-</u>	<u>27,200,193</u>
Total current assets	<u>66,799,292</u>	<u>807,363</u>	<u>(988)</u>	<u>67,605,667</u>
Noncurrent Cash and Investments				
Cash and investments internally designated by Board of Directors	10,736,717	-	-	10,736,717
Certificates of deposit	500,000	-	-	500,000
Externally restricted by donors	<u>132,425</u>	<u>243,344</u>	<u>-</u>	<u>375,769</u>
Total noncurrent cash and investments	<u>11,369,142</u>	<u>243,344</u>	<u>-</u>	<u>11,612,486</u>
Investment in Joint Venture	<u>214,387</u>	<u>-</u>	<u>-</u>	<u>214,387</u>
Capital Assets, Net	<u>59,608,856</u>	<u>-</u>	<u>-</u>	<u>59,608,856</u>
Other Assets				
Lease receivable	<u>402,099</u>	<u>-</u>	<u>-</u>	<u>402,099</u>
Total assets	<u>\$ 138,393,776</u>	<u>\$ 1,050,707</u>	<u>\$ (988)</u>	<u>\$ 139,443,495</u>

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

Combining Statement of Net Position (continued)

December 31, 2020

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

	<u>Medical Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Current Liabilities				
Accounts payable	\$ 3,261,729	\$ 1,033	\$ (988)	\$ 3,261,774
Accrued compensation and paid time off	2,976,863	-	-	2,976,863
Current maturities of long-term debt	1,435,000	-	-	1,435,000
Other current liabilities	714,198	-	-	714,198
Estimated self-insurance costs	900,000	-	-	900,000
Unearned revenue	4,030,120	2,500	-	4,032,620
Current portion of Medicare accelerated payments	3,783,942	-	-	3,783,942
	<u>17,101,852</u>	<u>3,533</u>	<u>(988)</u>	<u>17,104,397</u>
Total current liabilities				
	<u>17,101,852</u>	<u>3,533</u>	<u>(988)</u>	<u>17,104,397</u>
Other Liabilities				
Long-term portion of Medicare accelerated payments	4,919,017	-	-	4,919,017
Long-term debt	27,390,000	-	-	27,390,000
	<u>32,309,017</u>	<u>-</u>	<u>-</u>	<u>32,309,017</u>
Total other liabilities				
	<u>32,309,017</u>	<u>-</u>	<u>-</u>	<u>32,309,017</u>
Total liabilities	<u>49,410,869</u>	<u>3,533</u>	<u>(988)</u>	<u>49,413,414</u>
Deferred Inflows of Resources				
Lease revenue	46,291	-	-	46,291
	<u>46,291</u>	<u>-</u>	<u>-</u>	<u>46,291</u>
Total liabilities and deferred inflows of resources	<u>49,457,160</u>	<u>3,533</u>	<u>(988)</u>	<u>49,459,705</u>
Net Position				
Net investment in capital assets	29,180,094	-	-	29,180,094
Restricted - expendable for				
Scholarships	-	14,746	-	14,746
Other	92,425	228,599	-	321,024
Restricted nonexpendable	40,000	-	-	40,000
Unrestricted	59,624,097	803,829	-	60,427,926
	<u>88,936,616</u>	<u>1,047,174</u>	<u>-</u>	<u>89,983,790</u>
Total net position				
	<u>88,936,616</u>	<u>1,047,174</u>	<u>-</u>	<u>89,983,790</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 138,393,776</u>	<u>\$ 1,050,707</u>	<u>\$ (988)</u>	<u>\$ 139,443,495</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, 2021

	<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 \$3,280,588	\$ 100,973,240	\$ -	\$ -	\$ 100,973,240
Other operating revenue	<u>5,159,800</u>	<u>-</u>	<u>-</u>	<u>5,159,800</u>
Total operating revenues	<u>106,133,040</u>	<u>-</u>	<u>-</u>	<u>106,133,040</u>
Operating Expenses				
Salaries and wages	38,695,899	9,132	-	38,705,031
Employee benefits	14,834,171	-	-	14,834,171
Supplies	18,832,308	-	-	18,832,308
Purchased services	4,442,111	4,851	-	4,446,962
Professional fees	3,725,834	-	-	3,725,834
Depreciation	5,767,482	-	-	5,767,482
Provider fee expense	2,480,519	-	-	2,480,519
Repairs and maintenance	3,067,173	-	-	3,067,173
Lease and rental	145,686	-	-	145,686
Utilities	849,381	-	-	849,381
Insurance	456,325	-	-	456,325
Other expenses	<u>2,842,284</u>	<u>4,100</u>	<u>-</u>	<u>2,846,384</u>
Total operating expenses	<u>96,139,173</u>	<u>18,083</u>	<u>-</u>	<u>96,157,256</u>
Operating Income (Loss)	<u>9,993,867</u>	<u>(18,083)</u>	<u>-</u>	<u>9,975,784</u>
Nonoperating Revenues (Expenses)				
Property taxes	1,106,359	-	-	1,106,359
Interest income	320,386	8,616	-	329,002
Noncapital grants and gifts	4,610,735	346,127	(16,609)	4,940,253
Contributions to the Medical Center	-	(16,609)	16,609	-
Loss on investments	(315,812)	-	-	(315,812)
Interest expense	(842,601)	-	-	(842,601)
Gain on sale of capital assets	5,337	-	-	5,337
Loss on investment in equity investee	(25,460)	-	-	(25,460)
Other	<u>-</u>	<u>(34,126)</u>	<u>-</u>	<u>(34,126)</u>
Total nonoperating revenues (expenses)	<u>4,858,944</u>	<u>304,008</u>	<u>-</u>	<u>5,162,952</u>
Excess of Revenues Over Expenses Before Capital Gifts	14,852,811	285,925	-	15,138,736
Gifts and Grants to Purchase Capital Assets	<u>401,858</u>	<u>1,500,000</u>	<u>-</u>	<u>1,901,858</u>
Increase in Net Position	15,254,669	1,785,925	-	17,040,594
Net Position, Beginning of Year	<u>88,936,616</u>	<u>1,047,174</u>	<u>-</u>	<u>89,983,790</u>
Net Position, End of Year	<u>\$ 104,191,285</u>	<u>\$ 2,833,099</u>	<u>\$ -</u>	<u>\$ 107,024,384</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, 2020

	<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 \$2,408,658	\$ 84,147,479	\$ -	\$ -	\$ 84,147,479
Other operating revenue	3,265,114	-	-	3,265,114
Total operating revenues	<u>87,412,593</u>	<u>-</u>	<u>-</u>	<u>87,412,593</u>
Operating Expenses				
Salaries and wages	35,367,685	9,528	-	35,377,213
Employee benefits	13,182,572	-	-	13,182,572
Supplies	15,725,564	-	-	15,725,564
Purchased services	3,974,890	-	-	3,974,890
Professional fees	2,725,763	-	-	2,725,763
Depreciation	4,991,568	-	-	4,991,568
Provider fee expense	2,346,052	-	-	2,346,052
Repairs and maintenance	3,015,703	-	-	3,015,703
Lease and rental	229,231	-	-	229,231
Utilities	752,949	-	-	752,949
Insurance	410,884	-	-	410,884
Other expenses	2,473,559	13,180	-	2,486,739
Total operating expenses	<u>85,196,420</u>	<u>22,708</u>	<u>-</u>	<u>85,219,128</u>
Operating Income (Loss)	<u>2,216,173</u>	<u>(22,708)</u>	<u>-</u>	<u>2,193,465</u>
Nonoperating Revenues (Expenses)				
Property taxes	1,027,653	-	-	1,027,653
Interest income	735,883	6,354	-	742,237
Noncapital grants and gifts	3,329,122	127,621	(39,134)	3,417,609
Contributions to the Medical Center	-	(55,683)	55,683	-
Loss on investments	(53,757)	-	-	(53,757)
Interest expense	(884,189)	-	-	(884,189)
Gain on sale of capital assets	13,858	-	-	13,858
Gain on investment in equity investee	57,925	-	-	57,925
Other	-	(38,546)	-	(38,546)
Total nonoperating revenues (expenses)	<u>4,226,495</u>	<u>39,746</u>	<u>16,549</u>	<u>4,282,790</u>
Excess of Revenues Over Expenses Before Capital Gifts	6,442,668	17,038	16,549	6,476,255
Gifts and Grants to Purchase Capital Assets	<u>702,454</u>	<u>-</u>	<u>(16,549)</u>	<u>685,905</u>
Increase in Net Position	7,145,122	17,038	-	7,162,160
Net Position, Beginning of Year	<u>81,791,494</u>	<u>1,030,136</u>	<u>-</u>	<u>82,821,630</u>
Net Position, End of Year	<u>\$ 88,936,616</u>	<u>\$ 1,047,174</u>	<u>\$ -</u>	<u>\$ 89,983,790</u>

**Salida Hospital District d/b/a Heart of the Rockies
Regional Medical Center**
Budgeted and Actual Revenues and Expenses – Medical Center Only
Year Ended December 31, 2021

	<u>Actual</u>	<u>Budget</u>	<u>Favorable (Unfavorable) Variance</u>
Operating Revenues			
Net patient service revenue	\$ 100,973,240	\$ 94,147,894	\$ 6,825,346
Other operating revenue	<u>5,159,800</u>	<u>3,790,236</u>	<u>1,369,564</u>
	<u>106,133,040</u>	<u>97,938,130</u>	<u>8,194,910</u>
Operating Expenses			
Salaries, wages and employee benefits	53,530,070	53,216,720	(313,350)
Other operating expenses	<u>42,609,103</u>	<u>40,841,789</u>	<u>(1,767,314)</u>
	<u>96,139,173</u>	<u>94,058,509</u>	<u>(2,080,664)</u>
Operating Income	9,993,867	3,879,621	6,114,246
Nonoperating Revenues (Expenses), Net	<u>4,858,944</u>	<u>765,218</u>	<u>4,093,726</u>
Excess of Revenues Over Expenses Before Capital Gifts	<u>\$ 14,852,811</u>	<u>\$ 4,644,839</u>	<u>\$ 10,207,972</u>

Notes 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 2021.