



Financial Statements
December 31, 2018 and 2017

Delta County Memorial Hospital

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Independent Auditor's Report

The Board of Directors
Delta County Memorial Hospital District
d/b/a Delta County Memorial Hospital
Delta, Colorado

Report on the Financial Statements

We have audited the accompanying statements of net position of Delta County Memorial Hospital District d/b/a Delta County Memorial Hospital (Hospital), as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and the statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delta County Memorial Hospital District d/b/a Delta County Memorial Hospital as of December 31, 2018 and 2017, and the results of its operations, changes in financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 to 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 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2019, on our consideration of the Hospital's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Delta County Memorial Hospital District d/b/a Delta County Memorial Hospital's internal control over financial reporting and compliance.



Fargo, North Dakota
March 25, 2019

Introduction

Our discussion and analysis of Delta County Memorial Hospital District's (Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2018, 2017, and 2016. It should be read in conjunction with the accompanying financial statements of the Hospital, which begin on page 7.

Financial Highlights

In 2018, the net position of the Hospital decreased by \$581,313 or 1.4%. In 2017, the Hospital's net position decreased by \$1,415,845 or 3.2%. The Hospital recorded an operating loss of \$740,863 in 2018, \$1,679,355 in 2017, and \$1,059,500 in 2016. Net nonoperating revenues (expenses) were \$159,550 in 2018, \$13,510 in 2017, and (\$195,274) in 2016.

Using this Annual Report

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital, but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the accrual basis of accounting.

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

One of the most important questions to ask about the Hospital's finances is, "Is the Hospital, as a whole, in a better financial position 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 Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position, the difference between assets, liabilities, and deferred inflows of resources, as one way to measure the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will also need to consider other nonfinancial factors, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing and capital and related financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets, liabilities, and deferred inflows of resources in the Statements of Net Position. The Hospital's net position decreased in 2018 by \$581,313 or 1.4%, and decreased in 2017 by \$1,415,845 or 3.2%, as shown in Table 1:

Table 1 – Assets, Liabilities, and Net Position

	2018	2017	2016
Assets			
Cash and equivalents (including restricted and designated funds)	\$ 3,177,537	\$ 4,080,395	\$ 6,765,598
Patient accounts receivable, net	11,104,684	9,619,642	9,642,708
Other current assets	2,867,833	2,883,905	2,492,295
Capital assets, net	24,253,877	26,348,620	24,311,618
Other noncurrent assets	17,882,349	18,458,336	20,432,312
Total assets	\$ 59,286,280	\$ 61,390,898	\$ 63,644,531
Liabilities and Deferred Inflows of Resources			
Current liabilities	\$ 7,393,132	\$ 8,312,207	\$ 8,560,882
Long-term debt, less current maturities	9,188,798	9,790,981	10,363,164
Total liabilities	16,581,930	18,103,188	18,924,046
Deferred Inflows of Resources	288,526	290,573	307,503
Total liabilities and deferred inflows of resources	16,870,456	18,393,761	19,231,549
Net Position			
Net investment in capital assets	14,455,079	15,977,639	12,671,403
Restricted, expendable	1,108,828	1,818,741	1,818,437
Unrestricted	26,851,917	25,200,757	29,923,142
Total net position	42,415,824	42,997,137	44,412,982
Total liabilities, deferred inflows of resources, and net position	\$ 59,286,280	\$ 61,390,898	\$ 63,644,531

Operating Results and Changes in the Hospital's Net Position

The declines in net position will now be evaluated by looking at the Hospital's revenue and expenses as shown in Table 2.

Table 2 – Operating Results and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues			
Net patient service revenues	\$ 81,104,785	\$ 75,462,068	\$ 68,508,205
Other operating revenues	624,816	950,155	1,128,154
Total operating revenues	<u>81,729,601</u>	<u>76,412,223</u>	<u>69,636,359</u>
Operating Expenses			
Salaries and wages	35,924,177	34,830,150	30,769,678
Employee benefits	8,395,520	8,578,189	6,999,671
Purchased services and professional fees	8,786,086	9,215,809	8,850,811
Depreciation	2,688,058	3,082,740	3,028,534
Supplies and other	26,676,623	22,384,690	21,047,165
Total operating expenses	<u>82,470,464</u>	<u>78,091,578</u>	<u>70,695,859</u>
Operating Loss	<u>(740,863)</u>	<u>(1,679,355)</u>	<u>(1,059,500)</u>
Nonoperating Revenues (Expenses)			
Property taxes	337,805	355,087	345,659
Investment income (loss), net	278,087	313,546	(3,392)
Interest expense	(566,227)	(586,871)	(636,134)
Other nonoperating revenues	109,885	(68,252)	98,593
Total nonoperating revenues (expenses), net	<u>159,550</u>	<u>13,510</u>	<u>(195,274)</u>
Expenses in Excess of Revenues Before Capital Contributions	(581,313)	(1,665,845)	(1,254,774)
Capital Contributions	<u>-</u>	<u>250,000</u>	<u>-</u>
Change in Net Position	(581,313)	(1,415,845)	(1,254,774)
Net Position, Beginning of the Year	<u>42,997,137</u>	<u>44,412,982</u>	<u>45,667,756</u>
Net Position, End of the Year	<u>\$ 42,415,824</u>	<u>\$ 42,997,137</u>	<u>\$ 44,412,982</u>

Operating Income

The first component of the overall change in the Hospital's net position is its operating income or loss, generally, the difference between net patient service revenue and other operating revenues and the expenses incurred to perform those services. In fiscal year 2018, the Hospital's operating loss was lower than in 2017 and 2016 largely due to revenue growth outpacing salary and related costs as well as the increase in the provider fee payments.

Net patient service revenues increased from approximately \$68.5 million in 2016 to approximately \$75.5 million in 2017, an increase of 10.2%, and then increased to \$81.1 million from 2017 to 2018, an increase of 7.5%. The increase in 2018 is attributed to higher volumes for both inpatient and outpatient services as well as the increase in the provider fee payments.

Operating expenses increased by 10.5% from fiscal year 2016 to fiscal year 2017, and increased by approximately 5.6% from fiscal year 2017 to fiscal year 2018 which is due to increased supplies and other costs.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes, investment income, interest expense, and other revenue. The investment return declined significantly in 2016 and increased in 2017 and 2018.

The Hospital's Cash Flows

Changes in the Hospital's operating cash flows are consistent with changes in operating income and nonoperating revenues and expenses discussed earlier.

Capital Assets

At the end of 2018 and 2017, the Hospital had approximately \$24.3 million and \$26.3 million invested in capital assets, net of accumulated depreciation. During 2018, the Hospital invested approximately \$593,000 in new property and equipment and retired approximately \$1.1 million. The 2018 capital expenditures mostly consisted of upgrading equipment for several hospital departments. During 2017, the Hospital invested approximately \$5.1 million in new property and equipment and retired approximately \$539,000. The 2017 capital expenditures were largely due to the addition of a clinic in Hotchkiss, Colorado. The retirements in 2018 and 2017, were primarily related to fully depreciated capital assets that were no longer in service.

Debt

At the end of 2018 and 2017, the Hospital had approximately \$9.8 million and \$10.4 million outstanding on its 2010 Tax Exempt Enterprise Revenue Bonds.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, creditors, and citizens with a general overview of the Hospital's finances and to the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital's Executive Office at 1501 East 3rd Street, Delta, Colorado 81416.

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	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,350,479	\$ 3,278,513
Restricted cash - by donors	34,145	34,136
Internally designated cash and investments	792,913	767,746
Receivables		
Patient, net of allowance for doubtful accounts of \$4,230,000 in 2018 and \$3,713,000 in 2017	11,104,684	9,619,642
Property tax	288,513	290,560
Other	263,610	296,086
Supplies	1,357,142	1,297,962
Prepaid expenses and other	958,568	999,297
	<u>17,150,054</u>	<u>16,583,942</u>
Noncurrent Cash and Investments		
Internally designated	16,807,666	16,673,731
Held by trustee under debt agreements	1,074,683	1,784,605
	<u>17,882,349</u>	<u>18,458,336</u>
Capital Assets		
Capital assets not being depreciated	1,274,998	1,677,823
Depreciable capital assets, net of accumulated depreciation	22,978,879	24,670,797
	<u>24,253,877</u>	<u>26,348,620</u>
Total capital assets, net of accumulated depreciation	<u>24,253,877</u>	<u>26,348,620</u>
Total assets	<u>\$ 59,286,280</u>	<u>\$ 61,390,898</u>

See Notes to Financial Statements

Delta County Memorial Hospital
 Statements of Net Position
 December 31, 2018 and 2017

	2018	2017
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 610,000	\$ 580,000
Accounts payable		
Trade	2,284,267	2,650,102
Estimated third-party payor settlements	365,308	753,700
Accrued expenses		
Salaries and wages	2,757,318	2,770,877
Employee benefits	1,054,658	1,236,591
Interest	182,913	187,746
Other	138,668	133,191
Total current liabilities	7,393,132	8,312,207
Long-Term Debt, Less Current Maturities	9,188,798	9,790,981
Total liabilities	16,581,930	18,103,188
Deferred Inflows of Resources - Property Taxes	288,526	290,573
Net Position		
Net investment in capital assets	14,455,079	15,977,639
Restricted - expendable	1,108,828	1,818,741
Unrestricted	26,851,917	25,200,757
Total net position	42,415,824	42,997,137
Total liabilities, deferred inflows of resources, and net position	\$ 59,286,280	\$ 61,390,898

Delta County Memorial Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$2,227,975 in 2018 and \$2,314,711 in 2017	\$ 81,104,785	\$ 75,462,068
Other operating revenue	624,816	950,155
Total revenues, gains, and other support	81,729,601	76,412,223
Operating Expenses		
Salaries and wages	35,924,177	34,830,150
Employee benefits	8,395,520	8,578,189
Purchased services and professional fees	8,786,086	9,215,809
Depreciation	2,688,058	3,082,740
Supplies	17,050,799	12,935,856
Hospital provider fee	3,793,423	3,652,036
Repairs and maintenance	2,343,131	2,177,955
Other	3,489,270	3,618,843
Total operating expenses	82,470,464	78,091,578
Operating Loss	(740,863)	(1,679,355)
Nonoperating Revenues (Expenses)		
Property taxes	337,805	355,087
Investment income	278,087	313,546
Interest expense	(566,227)	(586,871)
Noncapital grants and gifts	25,531	28,930
Other income (expense)	84,354	(97,182)
Total nonoperating revenues (expenses), net	159,550	13,510
Expenses in Excess of Revenue Before Capital Contributions	(581,313)	(1,665,845)
Capital Contributions	-	250,000
Change in Net Position	(581,313)	(1,415,845)
Net Position, Beginning of the Year	42,997,137	44,412,982
Net Position, End of the Year	\$ 42,415,824	\$ 42,997,137

Delta County Memorial Hospital
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Receipts from and on behalf of patients	\$ 79,231,351	\$ 74,428,602
Payments to suppliers and contractors	(35,841,518)	(30,981,068)
Payments to or on behalf of employees	(44,515,189)	(43,021,721)
Other receipts, net	657,292	1,040,474
Net Cash From (Used For) Operating Activities	(468,064)	1,466,287
Noncapital Financing Activities		
Property taxes supporting operations	337,805	355,087
Other	109,885	(68,252)
Net Cash From Noncapital Financing Activities	447,690	286,835
Capital and Related Financing Activities		
Purchase and construction of capital assets	(593,315)	(5,119,742)
Repayment of long-term debt	(580,000)	(1,277,051)
Interest paid on long-term debt	(563,243)	(579,054)
Capital contributions	-	250,000
Net Cash Used For Capital and Related Financing Activities	(1,736,558)	(6,725,847)
Investing Activities		
Sales and maturities of investments	1,907,881	7,213,254
Purchases of investments	(2,119,821)	(7,200,000)
Interest and dividends on investments	412,894	422,731
Net Cash From Investing Activities	200,954	435,985
Net Decrease in Cash and Cash Equivalents	(1,555,978)	(4,536,740)
Cash and Cash Equivalents, Beginning of Year	4,116,121	8,652,861
Cash and Cash Equivalents, End of Year	\$ 2,560,143	\$ 4,116,121
Reconciliation of Cash to Statements of Net Position		
Cash and cash equivalents	\$ 2,350,479	\$ 3,278,513
Restricted cash - by donors	34,145	34,136
Internally designated cash and cash equivalents	175,519	803,472
	\$ 2,560,143	\$ 4,116,121

Delta County Memorial Hospital
 Statements of Cash Flows
 Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Operating Loss to Net Cash From (Used for)		
Operating Activities		
Operating loss	\$ (740,863)	\$ (1,679,355)
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation	2,688,058	3,082,740
Provision for bad debts	2,227,975	2,314,711
Changes in assets, liabilities, and deferred inflows of resources		
Patient accounts receivable, net	(3,713,017)	(2,291,645)
Property tax receivable	2,047	16,943
Other receivables	32,476	90,319
Supplies	(59,180)	(352,369)
Prepaid expenses and other	40,729	(146,503)
Accounts payable	(365,835)	1,091,680
Accrued expenses	(190,015)	413,228
Estimated third-party payor settlements	(388,392)	(1,056,532)
Deferred inflows of resources	(2,047)	(16,930)
Net Cash From (Used For) Operating Activities	\$ (468,064)	\$ 1,466,287

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Delta County Memorial Hospital District d/b/a Delta County Memorial Hospital (Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entities

The Hospital was created in 1964 as a political subdivision of the State of Colorado. The Hospital is not a component unit of another governmental entity. The Hospital began operations in 1975. The Hospital is a 49-bed acute care facility located in Delta, Colorado and has a publicly elected five-member Board of Directors.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital does not have a component unit which meets the GASB criteria.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Hospital's assets, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources to those assets or debt obligations.

Restricted net position:

Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated and restricted cash and investments. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient Receivables

Patient receivables are uncollateralized noninterest bearing patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified in the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Property Tax Receivable and Revenue

Property tax receivable is recognized on the lien date, which is January 1 of the tax year in Colorado. The property tax receivable represents taxes certified by the County Board of Supervisors to be collected in the next fiscal year. However, by statute, the tax asking becomes effective on the first day of the following year. Although the property tax receivable has been recorded, the related revenue is considered a deferred inflow of resources – unavailable revenue and will not be recognized as revenue until the year for which it is levied. The Hospital received less than 1% of its financial support from property taxes in 2018 and 2017. These funds were used to support operations.

Lien date	-	January 1
Levy date	-	January 1, succeeding year
Due dates	-	February 28 and June 15, succeeding year

Supplies

Supplies are stated at lower of cost (first-in, first-out) or net realizable value and are expensed when used.

Noncurrent Cash and Investments

Noncurrent cash and investments are set aside by the Board of Directors for future capital improvements and debt redemption, over which the Board retains control and may at its discretion subsequently use for other purposes, restricted by trustee for debt reserve, and restricted by donors. Certificates of deposit and other deposits are recorded at historical cost. Other investments are measured at fair value. Cash and investments that are available for obligations classified as current liabilities are reported in current assets.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of property and equipment are as follows:

Land improvements	5-30 years
Buildings and improvements	5-40 years
Equipment	5-15 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from expenses in excess of revenue. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Bond Premiums and Discounts

Bonds payable are reported net of the applicable bond premium or discount. Bond premiums and discounts are amortized over the life of the related debt using the effective interest method. Amortization is included in interest expense.

Compensated Absences

Most of the Hospital's employees earn cumulative annual leave (CAL) for vacation. Expense and the related liability are recognized as benefits when earned. CAL is computed using the regular pay rates in effect at the statement 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. At December 31, 2018 and 2017, the Hospital accrued \$1,172,756 and \$1,227,869 in cumulative annual leave, which is recorded in accrued salaries and wages in current liabilities on the statements of net position.

Estimated Health Claims Payable

The Hospital is partially self-insured for a portion of its exposure to its risk from employee health claims and purchases annual stop-loss coverage for all claims in excess of \$175,000 per claim for the years ended December 31, 2018 and 2017. Reserves of \$602,572 and \$402,983 at December 31, 2018 and 2017, which are included in employee benefits in current liabilities on the statements of net position, are estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources reported in the financial statements are for property taxes. Property taxes are recognized as revenue in the year they are levied.

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$291,441 and \$258,641 for the years ended December 31, 2018 and 2017, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Provider Fee Program

In 2010, the state of Colorado adopted a provider fee program, approved by the Centers for Medicare and Medicaid Services (CMS), under which all hospitals in the state were assessed a fee based on bed size and payor mix. The state of Colorado uses the fees to supplement state budget funds for the Medicaid program, which brings matching federal monies into the program, enabling the state of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible. The Hospital's expense was approximately \$3,793,000 and \$3,652,000 in provider fees for the years ended December 31, 2018 and 2017, which are recorded in operating expenses. The Hospital's revenue was approximately \$7,114,000 and \$4,874,000 of supplemental payments for the years ended December 31, 2018 and 2017, which are recorded as part of net patient service revenue.

Grants and Contributions

The Hospital may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after expenses in excess of revenue.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that demonstrate meaningful use of certified Electronic Health Records (EHR) technology.

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicare share; and (3) a transition factor applicable to that payment year.

The Hospital recognizes EHR incentive payments as revenue when there is reasonable assurance that the Hospital will comply with the conditions attached to the incentive payments. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

The Hospital recognized revenue of approximately \$0 and \$311,251 for the years ended December 31, 2018 and 2017 related to EHR incentive payments. These incentive payments are included in other revenue in the accompanying financial statements.

Budgets

The Hospital adopts an annual budget in accordance with Colorado Statutes. The budgeted revenue and expenditures are used by management as a control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.

Note 2 - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital participates in the Rural Community Hospital Demonstration Project. Under this program, inpatient acute care and swing bed services rendered to Medicare program beneficiaries are paid based on their reasonable costs for covered inpatient services. Certain outpatient services related to Medicare beneficiaries are paid based on a combination of a prospective pay system and fee schedules. Under a prospective pay system, payments to the Hospital are based on a predetermined package rate based on services provided to patients. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital’s Medicare cost reports have been audited by the MAC through the year ended December 31, 2015.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services, and defined capital costs related to Medicaid program beneficiaries are paid based on a cost-reimbursement methodology. The Hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital’s Medicaid cost report has been reviewed and settled through the year ended December 31, 2015.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital’s patient service revenues for the years ended December 31, 2018 and 2017:

	2018	2017
Medicare	54%	51%
Medicaid	20%	22%
Blue Cross and other commercial payors	22%	25%
Self pay and other	4%	2%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended December 31, 2018 and 2017, increased approximately \$827,000 and \$595,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated, and years that are no longer likely subject to audits, reviews, and investigations. The Hospital also recorded an additional \$1,679,000 of net patient service revenue in 2017 relating to a settlement of 2015 and 2016 claims with a commercial payer that was negotiated in 2017.

Note 3 - Deposits and Investments

The carrying amounts of deposits and investments at December 31, 2018 and 2017 are as follows:

	2018	2017
Carrying amount		
Cash and bank deposits	\$ 2,560,143	\$ 4,116,121
Investments	18,499,743	18,422,610
	\$ 21,059,886	\$ 22,538,731

Deposits and investments are reported in the following statement of net position captions:

	2018	2017
Cash and cash equivalents	\$ 2,350,479	\$ 3,278,513
Restricted cash - by donors	34,145	34,136
Internally designated to meet current obligations	792,913	767,746
Internally designated	16,807,666	16,673,731
Restricted investments held by trustee for debt service	1,074,683	1,784,605
	\$ 21,059,886	\$ 22,538,731

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Hospital. Statutes also require that the market value of the collateral be at least 102% of the excess deposits. The Hospital's deposit policy does not further restrict bank deposits or limit investment deposits.

The Hospital's deposits in banks at December 31, 2018 and 2017 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by PDPA.

PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2018 and 2017, the Hospital's deposits were entirely covered by FDIC and PDPA.

Investments

The Hospital's investments are reported at fair value and net asset value (NAV) per share. The Hospital is authorized by statute to invest funds in obligations of the United States and certain U.S. government agency securities; certain general and revenue obligations of any state of the United States; local government investment pools; certain money market funds; commercial paper; written repurchase and reverse repurchase agreements collateralized by certain authorized securities; certain guaranteed investment contracts, and certain U.S. dollar denominated corporate or bank security.

The Hospital had the following investments and maturities at December 31, 2018 and 2017:

December 31, 2018			Investment Maturities (in Years)		
Investment Type	Carrying Value	Rating	Less Than 1	1-5	6-10
Federal Home Loan Mortgage Corporation	\$ 4,423,757	AA+	\$ 3,041,670	\$ 1,382,087	\$ -
Federal Home Loan Bank	2,445,593	AA+	18,583	1,010,890	1,416,120
Federal National Mortgage Association	2,972,494	AA+	1,792,678	1,179,816	-
Federal Farm Credit Bank Debenture	7,431,731	AA+	39,008	3,388,344	4,004,379
Certificate of deposit	250,553	N/A	250,553	-	-
Colorado Local Government Liquid Asset Trust (at NAV)	975,615	AAAm	975,615	-	-
	<u>\$ 18,499,743</u>		<u>\$ 6,118,107</u>	<u>\$ 6,961,137</u>	<u>\$ 5,420,499</u>
December 31, 2017			Investment Maturities (in Years)		
Investment Type	Carrying Value	Rating	Less Than 1	1-5	6-10
Federal Home Loan Mortgage Corporation	\$ 4,632,623	AA+	\$ 37,119	\$ 4,595,504	\$ -
Federal Home Loan Bank	2,486,095	AA+	16,870	1,029,390	1,439,835
Federal National Mortgage Association	2,184,590	AA+	8,984	2,175,606	-
Federal Farm Credit Bank Debenture	8,163,757	AA+	43,713	1,455,986	6,664,058
Colorado Local Government Liquid Asset Trust (at NAV)	955,545	AAAm	955,545	-	-
	<u>\$ 18,422,610</u>		<u>\$ 1,062,231</u>	<u>\$ 9,256,486</u>	<u>\$ 8,103,893</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Hospital's investment policy limits investments to securities that mature 15 years or less from the date of purchase, unless otherwise authorized by the governing body.

Credit Risk

The Hospital's investment policy and State statutes limit investments in U.S. government agency securities to one of the three highest rating categories of at least one nationally recognized statistical rating organizations (NRSROs) at the time of purchase.

Concentration of Credit Risk

The Hospital will limit credit risk, the risk of loss due to the failure of the security issuer or backer, by diversifying in the investment portfolio so that potential losses on individual securities will be minimized. The Hospital does not have a formally adopted investment policy for managing concentration of credit risk. However, more than 5% of the Hospital's investments are invested in a number of securities as follows:

	2018	2017
Federal Home Loan Mortgage Corporation	24%	25%
Federal Home Loan Bank	13%	14%
Federal National Mortgage Association	16%	12%
Federal Farm Credit Bank Debenture	40%	44%
Colorado Local Government Liquid Asset Trust	5%	5%
Certificate of Deposit	2%	0%
	100%	100%

Investment Income

Investment income and gains and losses on cash equivalents and investments consist of the following for the years ended December 31, 2018 and 2017:

	2018	2017
Investment income		
Interest income	\$ 412,894	\$ 422,731
Change in unrealized gains and losses on investments	(134,807)	(109,185)
	\$ 278,087	\$ 313,546

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2018 are as follows:

	December 31, 2017	Additions	Retirements/ transfers	December 31, 2018
Capital assets not being depreciated				
Land	\$ 1,233,331	\$ -	\$ -	\$ 1,233,331
Construction in progress	444,492	41,667	(444,492)	41,667
Total capital assets, not being depreciated	\$ 1,677,823	\$ 41,667	\$ (444,492)	\$ 1,274,998
Capital assets being depreciated				
Land improvements	\$ 1,733,484	\$ -	\$ -	\$ 1,733,484
Building and building improvements	32,610,933	20,485	-	32,631,418
Fixed equipment	54,460	-	-	54,460
Major movable equipment	25,185,908	532,689	(703,743)	25,014,854
Total capital assets, being depreciated	59,584,785	\$ 553,174	\$ (703,743)	59,434,216
Less accumulated depreciation for				
Land improvements	(1,150,627)	\$ (103,610)	\$ -	(1,254,237)
Building and building improvements	(12,980,096)	(1,083,577)	-	(14,063,673)
Fixed equipment	(54,460)	-	-	(54,460)
Major movable equipment	(20,728,805)	(1,500,871)	1,146,709	(21,082,967)
Total accumulated depreciation	(34,913,988)	\$ (2,688,058)	\$ 1,146,709	(36,455,337)
Net capital assets, being depreciated	\$ 24,670,797			\$ 22,978,879
Capital assets, net	\$ 26,348,620			\$ 24,253,877

Construction in progress at December 31, 2018 represents equipment upgrades and rheumatology department expansion within the hospital. The estimated cost to complete these upgrades will range from approximately \$250,000 to \$400,000 as of December 31, 2018. The equipment upgrades are expected to be completed in the first quarter of 2019, while the expansion is expected to be completed by the end of the third quarter of 2019.

Delta County Memorial Hospital
Notes to Financial Statements
December 31, 2018 and 2017

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2017 are as follows:

	<u>December 31, 2016</u>	<u>Additions</u>	<u>Retirements/ transfers</u>	<u>December 31, 2017</u>
Capital assets not being depreciated				
Land	\$ 1,232,812	\$ 519	\$ -	\$ 1,233,331
Construction in progress	<u>282,722</u>	<u>3,132,295</u>	<u>(2,970,525)</u>	<u>444,492</u>
Total capital assets, not being depreciated	<u>\$ 1,515,534</u>	<u>\$ 3,132,814</u>	<u>\$ (2,970,525)</u>	<u>\$ 1,677,823</u>
Capital assets being depreciated				
Land improvements	\$ 1,519,406	\$ -	\$ 214,078	\$ 1,733,484
Building and building improvements	29,209,631	1,197,736	2,203,566	32,610,933
Fixed equipment	54,460	-	-	54,460
Major movable equipment	<u>24,371,447</u>	<u>800,480</u>	<u>13,981</u>	<u>25,185,908</u>
Total capital assets, being depreciated	<u>55,154,944</u>	<u>\$ 1,998,216</u>	<u>\$ 2,431,625</u>	<u>59,584,785</u>
Less accumulated depreciation for				
Land improvements	(1,038,554)	\$ (112,073)	\$ -	(1,150,627)
Building and building improvements	(11,856,440)	(1,123,656)	-	(12,980,096)
Fixed equipment	(54,460)	-	-	(54,460)
Major movable equipment	<u>(19,409,406)</u>	<u>(1,847,011)</u>	<u>527,612</u>	<u>(20,728,805)</u>
Total accumulated depreciation	<u>(32,358,860)</u>	<u>\$ (3,082,740)</u>	<u>\$ 527,612</u>	<u>(34,913,988)</u>
Net capital assets, being depreciated	<u>\$ 22,796,084</u>			<u>\$ 24,670,797</u>
Capital assets, net	<u>\$ 24,311,618</u>			<u>\$ 26,348,620</u>

Note 5 - Notes Payable and Long-Term Debt

Long-term debt consists of:

	Balance December 31, 2017	Additions	Reductions	Balance December 31, 2018	Amounts Due within One Year
Series 2010 Enterprise Revenue Refunding Bonds (1)	\$ 10,470,000	\$ -	\$ (580,000)	\$ 9,890,000	\$ 610,000
Original issue discount	(99,019)	-	7,817	(91,202)	-
	\$ 10,370,981	\$ -	\$ (572,183)	\$ 9,798,798	\$ 610,000
	Balance December 31, 2016	Additions	Reductions	December 31, 2017	Amounts Due within One Year
Series 2010 Enterprise Revenue Refunding Bonds (1)	\$ 10,470,000	\$ -	\$ -	\$ 10,470,000	\$ 580,000
Series 2012 Enterprise Revenue Refunding Bonds	1,277,051	-	(1,277,051)	-	-
Original issue discount	(106,836)	-	7,817	(99,019)	-
	\$ 11,640,215	\$ -	\$ (1,269,234)	\$ 10,370,981	\$ 580,000

Long-term debt maturities are as follows:

Years Ending December 31,	Principal	Interest	Total
2019	\$ 610,000	\$ 534,238	\$ 1,144,238
2020	640,000	503,738	1,143,738
2021	675,000	471,738	1,146,738
2022	710,000	436,300	1,146,300
2023	745,000	399,025	1,144,025
2024-2028	4,395,000	1,332,375	5,727,375
2029-2030	2,115,000	176,000	2,291,000
	9,890,000	\$ 3,853,414	\$ 13,743,414
Original issue discount	(91,202)		\$ 13,743,414
Total	\$ 9,798,798		

(1) The Series 2010 Enterprise Revenue Refunding Bonds have interest rates ranging from 5% to 5.5% and were due in semi-annual interest only payments until September 2018, when annual principal payments commenced. The bonds have a maturity date September 2030 and are secured by property and assignment of revenues.

Under the terms of the revenue bonds loan agreements, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with restricted investments in the financial statements. The loan agreement also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance.

Note 6 - Pension Plan

The Hospital has a defined contribution 403(b) profit-sharing plan that substantially covers all employees over 21. Pension expense is recorded for the amount of the Hospital’s required contributions, determined in accordance with the terms of the plan. The plan is administered by the Board of Directors. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital’s governing body. In 2018, the Hospital reduced the amount contributed, from three percent to one percent. Contributions made by the Hospital totaled \$208,579, \$589,247 and \$520,088 during 2018, 2017 and 2016, respectively.

Note 7 - Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2018 **and** 2017 was as follows:

	2018	2017
Medicare	35%	34%
Medicaid	12%	13%
Other third-party payors	42%	42%
Patients	11%	11%
	100%	100%

Note 8 - Fair Value Measurements

The Hospital has determined the fair value of certain assets in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quote prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset.

The fair values for debt securities and the certificate of deposit are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market assumptions. The debt securities and the certificate of deposit are classified within Level 2.

NAV per share, is used to estimate the fair value of the Colorado local government liquid asset trust, which does not have a readily determinable fair value. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

Assets measured at fair value on a recurring basis and the related fair values of these assets, except those measured at cost or by NAV per share as identified, at December 31, 2018 and 2017 are as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
		<u> </u>	<u> </u>	<u> </u>
December 31, 2018				
Federal Home Loan Mortgage Corporation	\$ 4,423,757	\$ -	\$ 4,423,757	\$ -
Federal Home Loan Bank	2,445,593	-	2,445,593	-
Federal National Mortgage Association	2,972,494	-	2,972,494	-
Federal Farm Credit Bank Debenture	7,431,731	-	7,431,731	-
Certificate of deposit	250,553	-	250,553	-
	<u>17,524,128</u>	<u>\$ -</u>	<u>\$ 17,524,128</u>	<u>\$ -</u>
Cash and bank deposits (at cost)	2,560,143			
Colorado local government liquid asset trust (at NAV)	975,615			
	<u>\$ 21,059,886</u>			

Delta County Memorial Hospital
Notes to Financial Statements
December 31, 2018 and 2017

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2017				
Federal Home Loan Mortgage Corporation	\$ 4,632,623	\$ -	\$ 4,632,623	\$ -
Federal Home Loan Bank	2,486,095	-	2,486,095	-
Federal National Mortgage Association	2,184,590	-	2,184,590	-
Federal Farm Credit Bank Debenture	8,163,757	-	8,163,757	-
	17,467,065	\$ -	\$ 17,467,065	\$ -
Cash and bank deposits (at cost)	4,116,121			
Colorado local government liquid asset trust (at NAV)	955,545			
	<u>\$ 22,538,731</u>			

The following table sets forth additional disclosures for the fair value measurements in certain entities that calculate NAV per share for the years ended December 31, 2018 and 2017:

	December 31, 2018			
Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Colorado local government liquid asset trust	\$ 975,615	\$ -	Daily	1 day
	December 31, 2017			
Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Colorado local government liquid asset trust	\$ 955,545	\$ -	Daily	1 day

Colorado local government liquid asset trust – Funds are invested in U.S. Treasury securities or repurchase agreements collateralized by U.S. Treasury securities, government agencies, and the highest-rated commercial paper.

Note 9 - Contingencies

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. The limits of the malpractice insurance are \$1 million per claim with an annual aggregate limit of \$3 million. The Hospital also has an umbrella liability insurance policy that provides additional protection on a claims-made basis subject to a limit of \$5 million. Should the claims made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigation, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient and resident services.

Self-Funded Health Plan

The Hospital is self-funded for health benefits for eligible employees and their dependents. The Hospital, in connection with this plan, recognizes health benefit expenses on an accrual basis. An accrued liability is recorded at year-end which estimates the incurred by not reported claims that will be paid by the Hospital. The Hospital has stop loss insurance to cover catastrophic claims in excess of \$175,000 per claim and an annual aggregate limit of \$6.1 million for the plan year ended December 31, 2018.

The Hospital expenses amounts representing the employer's portion of actual claims paid, adjusted for the estimates of liabilities relating to claims resulted from services provided prior to the fiscal year end not to exceed the annual aggregate expense. The estimated liability is included in accrued employee benefits on the statements of net position. These amounts have been estimated based on historical trends and actuarial analysis. Changes in the balance of claims liabilities during the past two years are as follows:

<u>Year</u>	<u>Beginning Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
2018	\$ 402,983	\$ 6,549,820	\$ (6,350,231)	\$ 602,572
2017	484,717	6,272,928	(6,354,662)	402,983

Note 10 - Delta County Memorial Hospital Foundation

The Delta County Memorial Hospital Foundation (Foundation), a separate legal entity with its own Board of Trustees, exists to raise funds for the Hospital and assist in the providing of educational opportunities for health career students. The Foundation has total assets (unaudited) of \$494,150 and \$16,020 at December 31, 2018 and 2017.

The economic resources received and held by the Foundation that the Hospital is entitled to, or has the ability to otherwise access, are not significant to the Hospital and as a result, the Foundation is not included as a component unit of the Hospital and, thus, is not reflected in the accompanying financial statements.



Supplementary Information
December 31, 2018 and 2017

Delta County Memorial Hospital



Independent Auditor's Report on Supplementary Information

The Board of Directors
Delta County Memorial Hospital District
d/b/a Delta County Memorial Hospital
Delta, Colorado

We have audited the financial statements of Delta County Memorial Hospital District d/b/a Delta County Memorial Hospital as of and for the years ended December 31, 2018 and 2017, and our report thereon March 25, 2019, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of budgeted and actual revenues and expenses shown on page 29, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of budgeted and actual revenues and expenses has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Fargo, North Dakota
March 25, 2019

Delta County Memorial Hospital
Schedule of Budgeted and Actual Revenues and Expenses (Unaudited)
Year Ended December 31, 2018

	Actual	Budgeted	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 81,104,785	\$ 78,571,026	\$ 2,533,759
Other	624,816	808,000	(183,184)
	<u>81,729,601</u>	<u>79,379,026</u>	<u>2,350,575</u>
Operating Expenses			
Salaries, wages, and employee benefits	44,319,697	43,667,687	(652,010)
Other	38,150,767	35,329,350	(2,821,417)
	<u>82,470,464</u>	<u>78,997,037</u>	<u>(3,473,427)</u>
Operating Income (Loss)	(740,863)	381,989	(1,122,852)
Nonoperating Revenues (Expenses), Net	159,550	526,810	(367,260)
Revenues in Excess of (Less Than) Expenses	(581,313)	908,799	(1,490,112)
Change in Net Position	<u>\$ (581,313)</u>	<u>\$ 908,799</u>	<u>\$ (1,490,112)</u>

Notes to Schedule

1. Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.
2. Appropriations are adopted by resolutions in total.
3. Management believes that the Hospital is compliant with the rules of Colorado's Taxpayer's Bill of Rights (TABOR).



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Delta County Memorial Hospital District
d/b/a Delta County Memorial Hospital
Delta, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General, of the United States, the financial statements of Delta County Memorial Hospital District d/b/a Delta County Memorial Hospital (Hospital) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated March 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Delta County Memorial Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We consider the deficiencies identified in the accompanying Schedule of Findings as 2018-A and 2018-B to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Hospital's Response to Findings

Delta County Memorial Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
March 25, 2019

2018-A Preparation of Financial Statements
Significant Deficiency in Internal Control over Financial Reporting

Criteria – A good system of internal accounting control should provide for the preparation of the financial statements and footnotes that are materially correct in accordance with generally accepted accounting principles.

Condition – The Hospital does not have an internal control system designed to provide for the preparation of the financial statements being audited, which include the accompanying required footnote disclosures. As auditors, we were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

Cause – This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints.

Effect – Inadequate controls over financial reporting could result in the Hospital not being able to draft financial statements and accompanying footnotes that are materially correct without the assistance of the auditors.

Recommendation – This circumstance is not unusual in small organizations. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials – Due to cost considerations, the Hospital will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

2018-B Limited Segregation of Duties
Significant Deficiency in Internal Control over Financial Reporting

Criteria – A good system of internal accounting control contemplates an adequate of segregation of duties so that no one individual handles a transaction from inception to completion.

Condition – The Hospital has a lack of segregation of duties in certain areas due to a limited staff.

Cause – The Hospital’s size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

Effect – Inadequate segregation of duties could adversely affect the Hospital’s ability to detect and correct misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – This circumstance is not unusual in smaller organizations. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials – Due to cost constraints, there will be no further administrative employees added.